CORPORATE DIVIDEND POLICY AND IT'S PRACTICES IN NEPALESE ENTERPRISES

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RECOMMENDATION

This is to certify that the thesis

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has been prepared as approved by this Department in the prescribed format of Faculty of Management. This thesis is forwarded for examination.

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We have conducted the viva-voce examination of the thesis presented by

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and found the thesis to be the original work of the student written according to the prescribed format. We recommend the thesis to be accepted as partial fulfillment for Master's Degree in Business Studies (M.B.S.)

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DECLARATION

I hereby, declare that the work reported in this thesis entitled **"Corporate Dividend Policy and it's Practices in Nepalese Enterprises"** submitted to Central Department of Management, University Campus, T.U., Kirtipur is my original piece of work done in the form of partial fulfillment of the requirement for the Master's Degree in Business studies under the supervision and guidance of My. Prof.Dr. Radhe Shyam Pradhan, Central Department of Management.

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ABBREVIATIONS

a	-Constant of Regression	MPS	- Market Price Per Share
b	-Coefficient of Regression	P/E Ratio	- Price Earnings Ratio
LIQ	-Liquidity	PE	- Probable Error
LEV	-Leverage	R	-Coefficient or Correlation
TURN	-Turnover	r^2	-Coefficient of Determination
CR	-Current Ratio	K_e	-Cost of Equity
QR	-Quick Ratio	K	-Cost of capital
NW	-Net Worth	P_0	-Current Market Price
CA	-Current Assets	P_1	-Ending Market Price
TA	-Total Assets	D_1	- Ending dividend
TC	-Total Capital	I	- Investment
LTD	-Long Term Debt	n	- no. of new share
COV	-Coverage	r	-Rate of Return
I	-Interest	R	- Retain Earning Per Share
S	-Sales	P_t	- Price Per Share at time t
EBT	-Earning before Tax	R_t	-Retained Earning at time t
EBIT	-Earning before Interest and Tax	E_t	-Earning at time t
DIV	-Dividend	D_t	-Dividend at time t
DPS	-Dividend Per Share	$(E/P)_t$	-Lagged earning price ratio
D/Y	-Dividend Yield	$D_{(t-1)}$	-Last year Dividend
DPR	-Dividend Payout Ratio	U	-Disturbance or Error term
E/Y	-Earning Yield	SEE	-Standard Error of Estimate
EPS	-Earning Per Share	X	-Airthematic Mean
Ltd	-Limited	W	-Weighted Mean

MD	-Median	SBI	-Siddhartha Bank of India
SD	-Standard Deviation	BOK	-Bank of Kathmandu
CV	-Coefficient of Variation	EBL	-Everest Bank Limited
χ^2	-Chi-Square	BBCL	-Bishal Bazar Company Limited
NIBL	-Nabil Bank Limited	STL	-Salt Trading limited
HBL	-Himalayan Bank Limited	SHL	-Soltee Holel Limited

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Chapter –I

Introduction

1.1 General Background:

Dividend policy determines the division of earnings between payments to stockholders and reinvestment in the firm. Dividends are normally paid quarterly (Weston and Copeland: 2004). Dividend policy involves the decisions to payout earnings versus retaining them for reinvestment in the firm. Dividend policy involves three issues: (1) what fraction of earnings should be distributed, on average time? (2) Should the distribution be in the form of cash dividends or stock repurchases? (3) Should the firm maintain a steady, stable dividend growth rate? The firm's optimal dividend policy is one of the top ten important unresolved problems in finance (Brealy & Mayers: 2005).Therefore, dividend policy should meet the average shareholders expectation.

Corporate dividend policy is not clearly understood by a large segment of the financial community. There is a misconception that dividend policy is a straight forward and simple aspect of finance as compared with the more technical areas such as taxation, liquidity management and cost accounting (Hackelt: 1981). It is considered that dividend policy is only a problem for those forms with positive earnings. It is both a problem and opportunity. Dividends are the result of a discretionary decision made by the board of directors of a firm. Management does not have legal obligation to pay dividend, but they have right to retain the earnings.

Dividend is a direct return to shareholders and generally paid in cash. Dividend is absolutely a portion of income. Generally, management of the corporate firm announces dividend only if profits are made after successful business operation and the distributed amount of dividend should be adequate to meet the normal expectation of average shareholders. Dividend policy is one of the most commonly observed issues. Dividend payout ratios should be higher in countries providing weak legal protection to shareholders than in those having stronger protection systems (Porta: 2000). Dividends reduce the intensity of agency problems by leaving fewer resources at the disposal of the management and reduce information asymmetries through signaling (Helwege: 2007). Most enterprises have a strong tendency to maintain stable dividends

and not adjust dividends in relation to the financial need for investment (Serita and Hanaed: 2007). Enterprises attach more importance to stable dividends than to performance linked dividends (Mizuno: 2007). Dividend implies to the portion of retained earnings which is paid to the stockholders while dividend policy refers to the guidelines that corporate management uses in establishing portion of retained earnings that is paid to the stockholders as dividend. Therefore, the stability of dividends is one of the considerate aspects of dividend policy to the enterprises. The dividend policy should be able to provoke that dividend meet the average shareholders expectation.

Dividend is both a problem and opportunity, which can affect the internal and external financing in the corporate firm so it is a complex decision. The decision relating to dividend policy is after mixed up with financing and investment decisions which involves a trade off between retained earnings needed for reinvestment on one side and paying out cash as dividend to the shareholders to recoup the opportunities foregone if funds are left with the firm on the other, Bready and Stewart (1981). In this sense, dividend policy is concerned with balancing the current income to the shareholders and future growth of the firm through the reinvestment of retains earnings that maximize the prices of the stock. This policy generally raises the question i.e. what fraction of earning should be paid out as average over time? Along with this dividend decision of a corporate firm implies on liquidity, flow of funds, composition of capital structure, investors attitude and expectation with ultimately affecting the cost of financing and the growth of the firm. Selected companies reflects the dividend practice and plays a role in efficient transaction of common stocks in the stock markets. Dividend policy and practice assure the payment of dividend and robust of investment for long term i.e. increase in market price per share confidently.

Dividend policy is an integral part of financing decisions. Thus, this study aims to focus on prevailing practice and policies for dividend payment among the selected companies. The dividend policy means some kinds of consistence approaches to the distribution versus retention rather than making the decision on the purely ad-hoc basis from period to period. So what and how much it is desirable to pay dividend is always controversial topic because shareholders always expect higher dividend, but firm issues towards setting a side funds for maximizing the

shareholders wealth. These banks are selected to show the difference in policy adopted by them considering size of the profit and dividend.

1.2 Statement of the Problem:

Dividend decision is a very important part of managerial financing in the sense that investors may required to rethink about investing in the shares of a company in absence of dividend payment. There is different school of thoughts on dividend policy in the theoretical literature of finance. One schools of thought hold that capital gain. Dividend policy is still a crucial and probably a most controversial topic in finance. It is more technical area of finance in the sense that it is complex one having numerous implications for the firm.

Dividend policy is both pervasive and perplexing. It is pervasive that enterprises have been paying regular cash dividends since the dawn of the modern limited liability enterprise in all market economies. Dividend policy is perplexing because it is not obvious why investors should demand cash dividends. Since the classical dividend irrelevance proposition by MM (1961), through the theoretical work of Gordon (1963, 1989), the empirical investigation by Friend and Puckett (1964), Black and Scholes (1974), reassessment of the dividend puzzle by Baker (2004), and payout policy survey by Mizuno (2007), the dispute on the effect of dividends on the value of the enterprise is not yet resolved. Black (1976) found no convincing explanation of why enterprises pay cash dividends and talked about a ‘dividend puzzle'. In a survey, Allen and Michaely (2003) concluded that much more empirical and theoretical research on dividends is required before a consensus can be reached.

Major changes in earnings were the most important determinants of an enterprise's dividend decisions (Lintner: 1956). (DeAngelo: 1992) argued that an annual loss is essentially a necessary, but not sufficient condition for dividend reductions in enterprises with established earnings and dividend records. Empirical evidence suggests that profitability, investment opportunities, and size are the important factors determining dividends (Fama and French (2001)). (Dhameja: 1972) contended that lagged dividend is directly associated with current year dividend and fluctuations in dividend determination are influenced by current year earnings. The survey of the views of managers by (Bhat and Pandey: 2003) in India revealed that current earnings, pattern of past dividends, expected future earnings, equity base, and liquidity are the

five top determinants of dividend policy. Though there are these findings on the determinants of dividend policy in developed countries and in India, they are not yet clearly known in Nepal.

Commercial banks and enterprises are not seen to serious regarding dividend decision since most of them dividend distribution. There is no limit in identification of the problem about dividend policy that is visible in Nepalese commercial banks. Even if there is policy that dividend policy of commercial banks is not matching the earning. Retained earning of firm is taken as financing sources. If the firm's retain earnings it will result in decreasing leverage ratio, expanding activities and increasing profit acceding years. Where as if the firm pays dividend it may need to raises capital that capital market. Which reduce ownership control of the existing shareholders. Another way of raising capital is through debenture, which ultimately affects no risk of the firm. However, dividend is the most important factor for the attraction and motivation of investor and it also reflects firm's healthy position in the market. There is no limit to the identification of the problems about dividend policies and practices that are occurring in the different publicly listed companies.

Dividend, the key factor for the investment on the company's shares is desirable from the stockholders point of view. But commercial banks in Nepal have not adopted consistent policy on dividend decision. **Firstly,** dividend distribution does not match with the earnings of the commercial banks. **Secondly,** there is no proper relationship between dividend and quoted market price of shares. Dividend policy of most firms is to retain approximately one third to half of total earnings and distributes the remaining amount to the shareholders (Van Horne: 2004). Similarly, commercial banks with lower returns recoded stable share price and vice versa. Thus, return of the banks does not reflect the market price of shares. Ownership patters, attitude of management, forms of management, governmental rules and regulations may be the partial causes of such a situation.

In practice, every firm follows some kind of dividend policy. Different dividend policies are suitable for different firms. In general, it is assumed that there is relationship between dividend and stick price but the relation is not known, in an underdeveloped capital market like Nepal. Dividend distribution is not matching with the earning of the commercial banks. Similarly, no proper relationship between dividend and stock price of share exist. Companies with lower returns record rigid price whereas companies making sound returns do not rigid in

price of share. Thus return of company is not reflection the market prices of share. Commercial banks have sufficient earnings and are able to pay dividends. But they are not following the prevailing dividend policies. While earning is low they pay high dividend and sometime when earning is high they pay low dividend. Many banks have sufficient earning but they are not distributing the dividend in equal properties. They have not followed the consistency in dividend distribution policy and we could not get uniformity of dividend pay out ratio in these sample banks. This study focuses on the following problems, which are being faced by the dividend policy makers of any company.

- Is there any consistency between the dividend policies being followed by among selected companies?
- Do the selected companies have ability to pay dividend and uniformity in dividend distribution?
- Do the companies paying larger dividend have a good financial position?
- What is the relationship of dividend with EPS, DPS, DPR, PE Ratio and MVPS?
- Does the dividend policy affect the market price of the share differently in different companies?

1.3 Objective of the Study:

The basic objective of this study is to analyze the dividend policy and practice in Nepalese companies. The specific objectives of the study have been set as follows:

1) To analyze factors affecting dividend policy.
2) To assess the current practice of dividend policy in selected companies.
3) To find out the impact of dividend on share prices.
4) To examine if there is any uniformity among EPS, DPS, DPR, Price earning Ratio and profitability ratio on the selected companies.

1.4 Organization of the Study:

This study is organized into six chapters. The first is introduction chapter and contains general background, statement of problem, objective of the study and organization of the study.

The second chapter describes for literature review. It includes the conceptual framework and describes the theory of dividend policy. Further, the review of related empirical works in general and Nepalese context in particular have been described. Concluding remarks summarized the literature in the theory and related empirical works.

Third chapter explains the methodology used. This chapter describes research approach, the nature and sources of data collected, enterprises selected as sample, and method of analysis, hypotheses developed and model used and limitation made in the study.

The fourth chapter presents and analyzes the secondary data. It includes the financial and statistical tools and concluding remarks.

Fifth chapter analyzes and presents the primary data. It includes the general background, respondents' profile, analysis of survey results and concluding remarks.

The chapter six summarizes, concludes and offers suggestions for further research.

CHAPTER –II

REVIEW OF LITERATURE

Review of literature is an essential part of all studies. A literature review is the process of locating, obtaining, reading and evaluating the research literature in the area of the interest of any researcher. It is a way to discover what other research in the area of problem selected has uncovered. The purpose is to develop some expertise in one's area, to see what new contribution can be made, and to receive some idea for developing a research design. It is also a way to avoid investigating problems that have already been definitely answered (Wolff and Pant 2005). In view of these considerations this study incorporates the dividend policy theories and relevant empirical studies in this chapter.

This chapter deals with conceptual framework and the second section includes the theories of dividend policy. Third section describes the empirical evidence of dividend policy. The fourth section includes the review of Nepalese studies. The fifth section shows the concluding remarks.

2.1 Conceptual Framework:

The term dividend refers to the distributed earning to the shareholders of the firm in return to their investment either in cash dividend or bonus shares to the stockholders of the selected companies. Stockholders wealth can increase either through dividend or capital gain. While selected companies announces cash dividend it reduces cash balances and issue of bonus share reduces retained earning with the effect of increase in share capital with increase of share outstanding.

The policy of a bank on the division of its profits between dividend and retention is considered as dividend policy. All aspects and questions regarding to the payment of dividend contain in a dividend policy, adopted by a selected companies can be taken as an indicator to divide it's net income to cash dividend and retained earnings in order to maximize the value of the banks, but actually the dividend policy really includes other aspects of dividend such as stock dividends, stock splits and repurchase of stock.

The dividend policy of a bank directly relates to the price of stock. If firm adopts a policy of paying out more cash dividends, the expected dividend will raise, which will tend to increase the price of stock. If cash dividend increases then less money will be available for reinvestment, the expected future growing ratio will be lowered and this will decrease the price of stock. The optimal dividend policy for a company keeps the balance between current dividends and future growth, which maximize the price of the stock. The market price of the stock of a company can be as a competent variable to target the value of the company. Even the effect of dividend policy on market value of stock is yet to clear.

Mostly shareholders desire to be paid dividend as cash, but it reduces the cash balance of the company. Therefore the financial structure, the flow of funds, liquidity and investors attitudes etc. can be affected by dividend policy. Therefore, dividend policy is wise policy to maintain a balance between shareholders interest with that the corporation growth from internally generated fund.

2.2 Forms of Dividend:

Most of the financial institution uses cash dividend but firms need to follow various types of dividend in view of the firms' objectives and policies, which they implement. In Nepalese context, the types of dividend that corporations follows are partly a matter of attitude of directions and purely a matter of the various circumstances and financial constraints that bound corporate plans and policies.

Based on the financial suitability directions and partly a matter of the various circumstances and of corporations, dividend may be distributed in various forms like cash dividend, property dividend, scrip dividend, and stock and bond dividend. But generally, in Nepal and India only cash and stock dividend are declared and distributed.

2.2.1 Cash Dividend:

Cash dividend is the dividend which is distributed to the shareholders in cash out of the earnings. When cash dividend is distributed both total assets and net worth of the company decrease as cash and earning decrease or the payment of the cash dividend reduces the cash account or reserve account of the company. So, it may create liquidity problem in company.

When cash dividend is paid both total assets and the net worth of the company are reduced. The market price of share drops in most cases by the amount of cash dividend distributed. So, the companies should wisely make decision regarding payment of cash dividend.

2.2.2 Stock Dividend (Bonus share):

A stock dividend is simply the issue of additional shares of stocks to existing stockholders in lieu of or in addition to cash dividend. The effect of increasing the number of outstanding shares of the company is also said to be a stock dividend. The shares are distributed proportionately, thus a shareholder retains his proportionate ownership of the company. The declaration of the stock dividend will increase the equity share capital and reduces the reserves and retained earnings of the company. The total net worth is not affected by the stock dividend. The affects of a stock dividend can be summarized as increase in the number of outstanding stock, transfer of retained earnings balance to capital accounts, cause not any change in net worth par value of the company along with not affecting the shareholders' proportional ownership.

2.2.3 Bond Dividend:

Actually, it is a kind of dividend that is distributed to shareholders in the form of bond. These bonds can be long-term bonds. These are given when the company is unable to take the burden of interest of loans.

2.2.4 Interim Dividend:

Generally, dividend is declared in the last of the financial year. This is called regular dividend. Many times direction can declare the dividend before the end of financial year. This is called interim dividend.

2.2.5 Scrip Dividend:

Scrip dividend means payment of dividend in promissory notes. Sometimes a firm needs cash generated by business earnings to meet business requirements. In such situation the firm any issue scrip or promissory notes promising to pay dividend at a future date. Generally the scrip has a definite date of maturity. Even sometimes maturity period is not stipulated and its

payment is left to the discretion of board of directors. It may be interest bearing or not interest bearing.

2.2.6 Property Dividend:

This type of dividend is that dividend at which the payment of assets or property in any form other than cash is known as property dividend. When there are assets that are no longer necessary are operation of the business or in extra ordinary circumstances, the company follows this form of dividend. Companies own products and securities of subsidiaries are the examples that have been paid as property dividend.

2.2.7 Special Dividend:

When directors of the company do not want to charge the dividend separately when the companies have good cash are reserves. This dividend is given with the regular dividend but separately.

Though there are different forms of dividends, in general, the form of dividends popular in Nepal are cash and stock dividends. The form of dividend chosen for this study is cash dividend.

2.3 Theory of Dividend Policy

2.3.1 Residual Theory of Dividend Policy:

The stockholders get dividend only when there exist balance of earning after paying fixed obligation and financing all acceptable investment. This theory explains that the dividend is residual after the meeting of all obligations and adjusting for retention of earnings and other provision. This theory suggests the company to distribute it's earnings to shareholders in the form of cash dividend, only when the firm has retained earning left over after financing all possible acceptable investment opportunities. The starting point of this theory is that investors to have the firm retain and invest earnings. Rather than pay them out in the trend of dividends. If the returns on investment exceed the rate of return, the investor can obtain on other investment of comparable risk.

When the company treats dividend policy as strictly a financing decision the payment of cash dividends is a passive residual. The amount of dividend payment will fluctuate in the amount of acceptable investment available to company.

The theory assumes that the internally generated funds (retained earnings) are comparatively cheaper than the funds obtained from external sources due to flotation cost. But the company always may not be able to do so because of the variation in the attitude of the shareholders.

Therefore, dividend policy is influenced by (1) the availability of internally generated capital, and (2) availability of the company's investment opportunities. "The treatment of dividend policy as a passive residual determinant solely by the availability of acceptable investment proposals implies that dividends are irrelevant, the investor is indifferent because dividends retention by the firm."

2.3.2 Stable and Regular Dividend Policy:

When a firm constantly pays a fix amount of dividend and maintains it for all times to come regardless of fluctuations in the level of its earnings, it is called a stable dividend policy. In this dividend policy, the dividend will be paid regularly. A consistent dividend policy is likely to enhance the share price by satisfying the firm's clientele and by providing consistently positive signal about future earnings prospects. This policy is applicable in the firm having regular and stable income. But this policy does not refer to fix income every year or periods. It can be changed proportionately with the change in companies earning. This policy has three forms:

a) Stable dividend per share:

When a firm pays a fix amount of dividend per share over the year and does not change it with fluctuations in the level of its earnings, it is said to have persuade a relatively stable dividend policy. The most popular kind of dividend policy is one that pays a regular steady dividend. This policy is completely rational policy and poses the strategic financial management; therefore, it is related to the company's ability to pay dividends.

b) Stable payout ratio:

If the firms distribute a certain percentage of its profit as dividend in every year is known as stable payout ratio. The ratio of dividend to earning is called payout ratio. If the firm simply applies the target payout rate to each year earnings, dividend could fluctuate widely (Brealey & Myera: 2000).

c) Low regular plus extra dividend policy:

If the company usually pays dividend constantly to stockholders at a fixed rate and do not change the payment ratio unless it is a believed that the changes in earnings are permanent. When the earning of a firm is swelling, it may have decided to distribute a part of increased earnings as extra dividend. It is known which earnings exceed annual dividend requirement by some given amount and it will be skipped subsequently, when business earning will drop to normal level. If could be the better policy to that company whose stockholders prefer at least a certain amount of regular income or return.

2.3.3 No Immediate Dividend Policy:

If the company does not declare dividend unless the company earn large income is called no immediate dividend policy. In other words, if there is not any hurry about dividend payment and if it could be only when the company earns more profit is known as no immediate dividend policy. This policy is usually pursued the following circumstances:

- When the firm is new and rapidly growing concern, which needs tidy amount of funds to finance its expansion program.
- When the firm excess to capital market is difficult.
- When availability of funds is costlier.
- When stockholders have agreed to accept higher return in future.

In fact, this policy should follow by issue of bonus shares.

2.3.4 Irregular Pay Dividend Policy:

It is the policy in which, the firm does not pay any fixed amount of dividend every year or dividend varied in correspondence with change in level of earnings, i.e., higher earnings means higher dividend and vice-versa.

The firm with un-stable earning also adopts this policy, when there are investable opportunities, the company retains more and when there are not any investable opportunities, the company distributes the earnings as dividend or there is not regularity of dividend payment therefore, it is the most used type of dividend policy in the Nepalese context at present.

2.4 Factor Influencing Dividend Policy:

The typical dividend policy of most firms is to retain approximately one third to half of total net earnings and distributes the remaining amount to the shareholders (Van Horne: 2004). But it does not hold true in each and every organization. The company's decision regarding dividend payment may be extremely affected by different factors. Therefore it is desirable to consider some of the factors that influence dividend policy which are as follows:

1. Legal rules:

Legal rules always play the important role for the limitation of the amount of dividends. All the companies are bounded by some legal restrictions. General legal provisions regarding to dividend payment are:

- Company can pay dividend from the earnings of current year or past year.
- Company can not pay dividend if the liabilities of the company exceeds assets.
- Dividend can not be paid if the amount of dividend to be distributed exceeds the net profit.
- Dividend can not be paid from the capital invested in the firms.

2. Liquidity position:

The distribution of dividends depends on liquidity positions. If the liquidity position of the company is bad, it may not be able to pay cash dividends. It will attempt to retain earnings into business to improve the liquidity position. Thus, the grater cash position and overall liquidity of

a company the grater will be the ability to pay dividend. Generally, the growing firms face the problems of liquidity even through they make remarkable amount of profit because they need substantial amount of cash for their expansion plans.

3. Access to capital market:

A company having insufficient cash can pay dividend. If capital market is easily accessible because they can generated fund from the capital market whenever it is required. Easily accessibility to the capital market provides flexibility to the management in paying dividend as well in meeting corporate obligation. Thus, greater the ability of the firm to raise fund in the capital market, greater will be the ability to pay dividend even it is not liquid.

4. Control:

If the company pays excess cash as dividend, there will be the shortage of fund to finance profitable investment opportunities, which must be fulfilled by issuing new securities. This invites the dilution and affects the control position of existing stockholders. So, they do not prefer to distribute the earnings as dividend because it weakens their controlling power to control the company.

5. Restriction in debt contracts:

Generally, lenders put restrictions on dividend payments to protect their interests when the firm is experiencing liquidity or profitability difficulties. Such restrictions, which are designed to protect the position of the leader, usually stating that future dividends can be paid only out of earnings generated after the signing of the loan agreement dividends can not be paid when networking capital is below a specified amount. Similarly preferred stock agreements generally state that no cash dividends can be paid on the common stock until all accrued preferred dividends have been paid.

6. Stability of earnings:

Stability of earnings is another important affecting factor of dividend policy. If the earning of a firm is fluctuated significantly a larger amount of earnings may be retained. If there is a stable earning trend of the company, it will generally pay a larger of it's earnings in dividends.

7. Tax position of stockholder:

Paying dividend is not only the action of company but it also should consider the preferential need of the stockholder. The shareholder with high income tax brackets prefer to receive, low dividend and high rate of retention. Corporation owned by largely tax payers in high income tax where as corporation owned by small investor tends towards higher dividend payout.

8. Need to repay debt:

If the firm used debt capital in its capital structure, regular payment of interest as well as repayment of principal at the maturity is essential. Requirement of such payment reduces the availability of cash for the payment of dividend. It means the firm may required the whole earnings to retire the debts and they may mot be able to pay only dividends to shareholders. Thus the need to repay debt also affects the dividend policy.

9. Inflation:

Inflation is another factor that influences firm's or companies dividend decision. During inflation period, price will rise and funds generated from depreciation may be inadequate to replace equipment, if the assets are to be replaced in near future. Consequently greater profit retention may require. As a result dividend payout ratio will be low.

2.5 Legal Provisions Governing Dividend Practices in Nepal:

According to some earlier researcher, we find that most of the companies in Nepal do not nave any fixed dividend policy. Before 1997 there was not any legal provision regarding dividend policy. Nepal companies act. 1997 makes some legal provisions for dividend payments. These provisions may be seen as follows.

Section 2(M) states that bonus share (stock dividends) means share issue in the form of additional shares to shareholders by capitalizing the surplus from the profits or the reserve fund of a company. The term also denotes an increase in the paid up value of the shares after capitalizing surplus or reserve funds.

Section 47 has prohibited company from purchasing its own shares. This section states that no company shall purchased its own shares or supply loans against the security of its shares.

Section 137: bonus shares and **sub-section (1)** states that the company must inform the office before issuing bonus shares under **subs-section (1)** this may be doe only according to special resolution passed by general meeting.

Section 140: dividends and sub-sections of this section are as follows:

Except in the following circumstances dividend shall be distributed among the shareholders within 45 days from the date of decision to distribute them.

a) In case any laws forbids the distribution of dividends.
b) In case the right to dividend is distributed.
c) In case dividends can not be distributed within the time limit mentioned above owing to circumstances beyond anyone's control and without any fault on the part of the company **sub-section (2):** in case dividends are not distributed within the time limit mentioned in **sub-section (1)** this shall be done by adding interest at the prescribed rate. **Sub-section (3):** only the person whose name stand registered in the register existing shareholders at the time of declaring the dividend shall be entitled to it.

2.6 Review of Major Studies:

Linters' Study (1956) regarding the behavioral aspect of dividend policy in the American context of 28 companies in 1956, Linter, made an important study. His study was related to partial adjustment model with respect to dividend patterns of American companies. The author concluded that a major portion of dividend of a firm could be expressed in the following way:

$DIV_t^1 = PEPS_t$ ……(i)

$DIV_t - DIV_{t-1} = a + b\ (DIV_t - DIV_{t-1}) + e_t$ ……(ii)

$DIV_t = a + bDIV_t^1 + (1-b)\ DIV_t^1 + e_t$ ……(iii)

Where,

DIVt1 = Firms desired payment

EPSt = Earnings

P = Target payout ratio

a = Constant relating to dividend growth

b = Adjustment factor relating to previous periods dividend and new

desire level of dividends, where b<1.

His findings on dividend policy were as follows:

- Firms generally have target payout ratios in the view while determining changes in dividend per share.
- Management of the firm is generally though about the proportion of earning to be paid out.

Modifying the pattern of dividend behavior is not considered with investment requirements.

Modigliani and Miller's (1961) article is the most comprehensive argument for the irrelevance of dividend' i.e. dividend policy, growth and the valuation of shares. They argue that the value to the firm depends of the firm's earning, which results from its investment policy. Thus, when investment declining of the firm is given dividends decision, the split of earnings between dividends and retained earnings has no significance in determining the value of firm.

Modigliani and Miller's (MM's) hypothesis of irrelevancy is based on following assumptions.

- The firm operates perfect capital market in which all investors are rational.
- The firm has a fixed investment policy which is not subjected to change.
- Risk of uncertainty does not exist.
- There are no taxes and an absence of flotation and transaction costs.
- They provided the proof in support of their argument in the following ways:

Step 1:

The market price of the firm at the beginning of the period is equal to the present value of dividend paid at the end of the period plus the market price of the shares at the end of period. Symbolically:

$P_0 = \frac{D1+P1}{1+Ke}$

Where,

P_0 = Current market price per share

P_1 = Market price per share at the end of year

D_1 = Dividend per share to be recovered at the end of year

K_e = Cost of equity capital (This rate is assume to be constant)

Step 2:

Multiplying both sides of equations by the number of shares outstanding (n), we obtain the total value of the firm if no new financing exists.

$nP_0 = \frac{n(D1+P1)}{1+Ke}$

Where,

n = no. of share outstanding

Step 3:

If the firms internal sources of financing its investment opportunities full shot of the funds required. The firm sells new shares at the end of period at a price 'P_1', the value of firm at time will be:

$nP_0 = \frac{nD1+P1(n+\Delta nP1)}{1+Ke}$

Where,

n = No. of new share

Step 4:

If the investment proposal of a firm, in a given period of time, can be financed either by retained earnings or by the issuance of new shares or by both, the amount of new issue will be:

$\Delta nP_1 = I - (E - nD_1)$

Where,

I = Total new investments to be financed during the period

E = Total earnings of the firm during the period

ΔnP_1 = the amount obtained from the sale of new shares to finance

Investment opportunities

Step 5:

By subtracting the value of ΔnP1 from equation (iv) to equation (iii) we get,

$nP_0 = \frac{nD1+P1(n+\Delta n)-I+E-nD1}{1+Ke}$

Or, $= \frac{P1(n+\Delta n)-I+E}{1+Ke}$

Where,

I = Total new investment during the period

E = Earning of the firm during the period

Step 6:

In this way there is no any role of dividend in the above equation.

Under MM hypothesis market price of a share at the beginning of the period is derived as equal to the present value of dividend paid at the end of the period plus the market price at the end of the period. MM hypothesis is that the firm, which pays dividends, will have to raise funds

externally to finance its investment plans. MM hypothesis implies that when the firm pays dividends external financing offsets its advantage. This means that the terminal value of share declines when the dividends are paid, thus the wealth of the shareholders remain unchanged. As a result the present value per share after dividend and external financing is equal to the present value per share before the payment of dividends. Thus, the shareholders are indifferent between payment of dividends and retention of earnings.

Gordon's Model (1962) is another theory which contends that dividend relevance. Gordon concluded that dividend policy of a firm affects its value even in a situation where the return on investment and required rate of return on investment are equal. This model explains that investors are not indifferent between current dividend and retention of earning. The conclusion of his study is that investor gives more emphasis to the present dividend more than future capital gain. "His argument stated that an increase in dividend payout ratio leads to increase in the stock price for the reason that investors consider the dividend yield (D_1/P_0) is less risky than the expected capital gain." (Pradhan, 2000)

His model is based on following assumptions:

- The firm is all equity firms and it has no debt.
- No external financing.
- The internal rate of return (r) and cost of capital (k) are constant.
- The firm and its stream of earnings are perpetual.
- The corporate tax does not exist.
- The retention ratio (b) is constant. Thus, the growth rate ($g = b_r$) is also constant.
- Cost of capital is greater than growth rate ($k > g$).

According to Gordon's dividend capitalization model, the market value of a share is equal to the present value of an infinite stream of dividends to be received by the shareholders. This can be symbolically expressed as:

$$P_0 = \frac{D1}{(1+K)} + \frac{D2}{(1+K)^2} + \ldots\ldots\ldots\ldots\ldots\ldots \frac{Dn}{(1+K)^n}$$

$$= \sum_{n=1}^{\infty} \frac{Dn}{(1+K)^n}$$

However, the dividend per share is expected to grow when earnings are retained. Based on the above assumption Gordon provided the following formula to determine the market value of share, which is a simplified version of the original formula.

$$P = \frac{EPS\ (1-b)}{(K-br)} = \frac{DPS}{K-g}$$

Where,

P = Price of share

EPS = Earning per share

b = Retention ratio

(1-b) = Dividend payout ratio

Under Gordon's model there is revealed three conditions. They are:

In case of growth firm (r > k): The market value of share (P_0) increases with the retention ratio (b) for firms with growth opportunities.

In case of declining firm (r < k): The market value of the share (P_0) increase with the payout ratio (1-b) for declining firms.

In case of normal firm (r = k): The market value of share (P_0) is not affected by dividend policy.

Walter (1963) supports the relevancy of dividend policy. He argues that the dividend policy always affects the value of the firm. The investment policy of a firm can not be separated from its dividend policy. Walter argued that dividend policy affects the stock price that is dividend is relevant with stock prices. The relationship between firm's internal rate of return (r) and cost of capital (k) is determining factors to retain profits. The model is based on the following assumptions:

- The firm finances all investment through retained earnings can be considered as debt or new equity, which is not issued.
- Both the firm's rate of return (r) and cost of capital (k) are constant.

- All earnings are either distributed as dividend or reinvested internally immediately.
- The values of the earning per share and the dividend per share may be changed in the model to determine results, but any given values of EPS and DPS are assumed to remain constant forever in determining a given value.
- The firm has a very long or infinite life.

Considering the above assumptions, Walter's model to determine the

Market price per share is as follows:

$$P = \frac{DPS}{K} + \frac{[r(EPS-DPS)]/K}{K}$$

Where,

P = Market price per share

DPS = Dividend per share

EPS = Earning per share

r = Firm's rate of return

K = firm's cost of capital or capitalization rate

The above formula suggests that market price per share depends upon the relationship between market capitalization rate and internal rate of return. As well Walter referred different effects of dividend policy for different types of the firms as:

a) **Growth firm (r > k):** If the firm's internal rate of return (r) exceeds the cost of capital (k) such firms are known as growth firms. The relation between dividend and stock price of growth firm is negative. That is more dividend lead to low stock price. Walter argued that zero percent payout ratios would maximize the value of shares for growth firm.
b) **Normal firm (r = k):** If the firm's internal rate of returns (r) is equal to cost of capital (k) such firm are known as normal firm. The payout ratio does not affect to share price of the firm. So, there is no optimum payout ratio for a normal firm. Such firm can pay either all dividend or reinvest of its earnings.

c) **Decline firm (r < k):** If the firm's internal rate of return (r) is less than cost of capital (k) such firm is referred to as declining firm. The relation between dividend and share price is positive. Such type of firm has not profitable investment opportunities increase in dividend per share yield is incr3ease in stock price. Therefore, the optimal payout ratio should be hundred percent. Hence, according to Walter model, the dividend policy of the firm depends of the availability of investment opportunities and the relationship between the firms cost of capital and internal rate of return.

Friend and Puckett (1964) conducted a study on the relationship between dividend and stock price by running regression analysis on the data of 110 firms from five industries in the year 1956 and 1958. These five industries were chemicals, electric utilities, electronics, food and steel. These industries were selected to permit a distinction made between the result for growth and non-growth industries and to prove a basic for comparison with result by either author for earlier years. They also considered cyclical and non-cyclical industries, which they covered. The study period covered a boom year. For the economy when stock price level off after risk (1956) and a some what depressed year for the economy when stock prices however rose strongly (1958).

They used dividends, retained earnings and price earnings ratio as independent variables in their regression model of price function. They used supply function, i.e. dividend function also in their dividend function, earnings, last year's dividends and price earnings ratio are independent variables. They quoted that the dividend supply function (equation) was developed by adding to the vast type of relation ship develop by Lintner. Symbolically, their price function and dividend supply function are

Price function: $P_t = a + bD_t + CR_t + dh\ (E/P)_{t-1}$

Where,

Pt = Price per share at time t

Dt = Dividends at time t

R_t = Retained earnings at time t

$(E/P)_t$ = lagged earning price ratio

Dividend supply function: $D_t = e + FE_t + gD_{t-1} + d(E/P)_{t-1}$

Where,

E_t = Earnings per share at time t

D_{t-1} = Last year dividend

There study was based on the following assumptions:

- Dividend does react to year to year fluctuations in earnings.
- Price doesn't contain speculative in earnings.
- Earnings fluctuations may not sum zero over the sample.

There regression results based on the equation if $P_t = a + bD_t + CR_t$ showed the customary stock dividend and relatively weak retained earning effect in three of the five industries, i.e. chemicals, food, and steels. Again they tested other regression equation by adding lagged earnings price ratio to the above equation and resulted the following equations $Pt = a_t + bD_t + CR_t + d(E/P)_{t-1}$. They found the following result. They found that more than 80% of the variation in stock prices could be explained by three independent variables. Dividends have predominant influence on stock prices in the chemicals, food, and steel industries but they found the differences between the dividend and retained earnings co-efficient were not quite significant as in the first set of regressions. The dividends and retained earnings co-efficient were closer to each other for ass industries in both years except for steels in 1950 and the correlation were higher again except for steels.

They also calculated dividend supply equation, i.e. $D_t = e + FE_t + gD_{t-1} + h\ (E/P)_{t-1}$ and the derived price equation for four industries groups in 1958. In their derived price equation is seems that there was no significant changes from those obtained from the single equations approach as explained above. They argued that the stock price or more accurately the price earnings ratio doesn't seem to have a significant effect on dividend payout. On the other hand, they noted that the retained earning effect is increased relatively in three of the four cases listed, further, they argued that their result suggest price effects on dividend supply are probably not a serious source

of bias in the customary derivation of dividend and retain earnings distributing effect of short run income movements are significantly great.

Further, they used lagged price as a variable instead of lagged earnings price ratio and showed that more than 90% of variation and retained earning received greater relative weight than dividend in the most of the cases. They only expectations and were steels and food in 1958. They considered chemicals, electronics and utilities, as growth industries, in their groups and retains earning effect was longer than the dividend effect for both years covered. For the other two industries, namely food and steels, there were no significant systematic differences between the retained earning and dividend coefficient. Similarly, they tested the regression equation of $P_t = a + bD_t + CR_t + d\ (E/P)_{t-1}$ by using normalized earnings. They found the result, that, there was significant role of normalized earnings and retained earnings but effects of normalized price earnings ratio were constant.

The conclusion of the study was that management might be able to increase price somewhat by raising dividends in foods and steels industries. So, they concluded that, it is possible that management might be able to increase stock prices in non-growth industries by raising dividends and in growth industries by greater retention or lower dividends.

Horne & Donald's Study (1971) there was a more comprehensive study on dividend policy and new equity financing which Horne & Donald conducted during the year-end 1968. The purpose of this study was to investigate the combined effect of dividend policy and new equity financing decision on the market value of the firm's common stocks. They explored some basic aspects of conceptual framework and empirical tests for two industries using a well-known valuation model i.e. a cross-section regression model. For the requirements of the data they collected from 86 electric utility firms included on the "COMPUSTAT" utility data tape and 39 firms in the electronics component industries as listed on the COMPUSTAT industrial data tape.

Using different models or methodology the comparison was conducted by them regarding those firms, which pay dividends and engage in new equity financing with other firms in an industry sample. And the result was that for electric utility firms in 1968 share value was not adversely affected by new equity financing in the presence of cash dividends except for those in the highest new issue group and it made new equity a more costly form of financing than the

retention of earnings. The study made by them also shows that the payment of dividends through excessive equity financing reduces share prices. For electronics, electronic components, industry is significant relationship between new equity financing and value was not demonstrated. In this way both of the authors show that the effect of dividend policy and new equity financing decision on the market value of the firms' common stock.

Black and Scholes (1974) studied dividend policy by using the CAPM to empirically relate a stocks market behavior to dividend payout ratio. They found that the relation was not significantly different. Stocks with higher payout ratio provided returns similar to those with low payout. As a result, they concluded that such empirical evidence tended to be consistent with the idea that dividend policy does not matter and so dividend policy irrelevant (Black & Scholes, 1974). According to them, dividend policy affects only the timing of expected dividends not their present value.

Hakansson's(1981) conducted a study on daily share price changes around the announcement of a dividend change and found that results ware consistent with a dividend announcement effect of the organization. And it was clearly shown that increase in dividend lending to positive excess returns and decrease in dividends to negative excess returns. Such effects seem to be more applicable for those companies that previously over invested free cash flows in projects with return less than what the financial market require. After a long interruption of payment of dividend of the firms they were found to earn significant excess returns. The companies omitting dividends because of poor present earnings and future prospects suffer a decline in share prices. In this way the study shows the effect of dividend of changes in daily share prices.

Chawa(1987) conducted a study on the impact dividend and retention on share prices. They estimated cross section relationship for the year 1969 to 1973 of 18 chemical and 13 sugar industries. The basic objectives of this study were as:

- To set a model that to explain share price dividend and retained earnings relationship.
- To test the dividend, retained earnings hypothesis estimated relations' overtime.

To attain the above-mentioned objective they used simultaneous equation model as developed by Friend & Puckett in 1964. The model in its unspecified from was as follows:

1. Price function:

$P_t = f [D_t, R_t, P/E_{(t-1)}]$

2. Dividend supply function:

$D_t = f [E_t, D_{(t-1)}, P/E_{(t-1)}]$

Where,

P = Market price per share

D = Dividend per share

R = Retained earnings per share

E = Earning per share

P/E = Deviation from the sample, average of price earning ratio

They used two stage least square technique for estimation and from the result they found that the estimated co-efficient of determination of all the equation were very high in case of chemical industry. Thus it implies that the stock price and dividend supply variation can be explained by their independent variables. But incase of sugar industry they found that the sign for the retained earnings is negative. Finally they concluded that dividend hypothesis holds well in the chemical industry and both dividends and retained earnings significantly explain the variations in share price in that industry.

2.7 Review of Major Nepalese Studies

Bhattarai (1990) has conducted a study on "Share Market in Nepal" in 1990. This study throws some light on dividend performance of some companies. Mr. Bhattarai conducted some findings related to dividend practices as follows:

- Majority of the companies are declaring dividend less than risk free rate of return and market risk premium.
- Most of the companies understand the expectations of investors and there by resulting the low market ability of shares on trading floor of stock exchange.

- Relationship between earnings, dividend, growth and expansion program of the firm do not exist. So, the retention policies do not match with the actual financing need of the companies has been realized.
- Sampled companies are adopting haphazard dividend policy rather than due regard is not paid on sound dividend policy.

Shrestha (1992) has conducted the study on shareholders democracy and annual general meeting feedback deals with policies and financial performance of some financial companies in Nepal. Shrestha opines that the shareholders have common views on the problem and constraints by the shareholders, which are as follows:

- The cost-push inflation at exorbitant rate has made the shareholders to expect high return from their investment.
- Multi decrease in the purchasing power of the Nepalese currency to the extent that higher return by way of dividend is just a natural economic consequence of it.
- Erosion in the purchasing power of the income has made it that dividend payout must be directed to enhance shareholders purchasing power by raising dividend payout ratio on the basis of both earning and cost theory.
- Indo Nepal trade and transit dead luck has become a sort of economic welfare putting rise.
- In the cost of living index to a considerable extent. This is one of the reasons, while made shareholders to expect higher demand for satisfactory dividend.
- The waiting of five years with peanut dividend in previous year is equally a strong enforceable reason of the bank's shareholders to expect handsome dividend already assumed and committed in various reports of the earlier annual general meeting.
- One way to encourage risk taking ability and preference is to have proper risk return trade off by bank's management board in away that higher return must be the investment rule for higher risk-takers that comprise banks shareholders.
- Regarding these difficulties, he requested the bank management board to rethink the smaller relating to payment of dividend. However, at the close of his paper, he opines that the bank is trying its best to satisfy both the shareholders and employers.

Pradhan (1993) has conducted the study on stock market behavior in the year 1993. For the study, he collected the data by seventeen enterprises for the year 1986 to 1990 respectively.

The main objective by pradhan's study on "stock market behavior in a small capital market" was as follows:

- To asses the stock market behavior in Nepal.
- To examine the relationship of market equity, market value to book value, price earnings and dividend with liquidity, project ability, leverage, assets turnover and interest coverage.

The major findings of this study were as under:

- Higher the earnings on stock leads the larger the ratio by dividend per share to market price per share.
- Stock with large ratio of dividend per share to market price per share has lower coverage ratios.
- Stock with large ratio of dividend per share has higher liquidity.
- Dividend per share and market per share was positively correlated.
- Positive relationship between the ratio of dividend per share to market per share and interest coverage.
- Positive relationship between dividend payout and liquidity.
- Positive relationship between dividend payout and turnover ratios.
- Positive relationship between dividend payout and profitability.
- Positive relationship between dividend payout and interest coverage.
- Earning, asset turnover and interest coverage are more variable for the stock paying higher dividends.

Aryal (1997) has been conducted a research work on dividend policy comparative study between NBL and NBBL. He analyzed the data of the two respective banks of 1987/88 to 1994/95. From his study he concludes that:

- The relationship between dividend per share with earnings per share, net profit, net worth and stock price is positive.

- Market price per share is affected, if change in dividend per share.
- No uniform dividend policy found in both banks.

The objectives of this study were as follows:

- To analyze the relationship of dividend with various important variables, such as earning per share, net profits, net worth and stock prices.
- However, his study has following limitation:
  Number of sample selected for the study are small i.e. only two banks are selected.

Gautam (1997) the study on "Dividend Policy: Comparative Study of Three Joint Venture Banks" from 1992 through 1997. The main objectives of his study are:

- To identify the type of dividend followed by banks.
- To examine the impact of dividend on stock price.
- To identify the relationship between DPS & other financial indicator.
- To know the uniformly among DPS, EPS, and DPR of the sample banks.

The main findings of this study were as follows:

- No clearly defined dividend policy is found followed by the sample banks.
- No significant relationship between DPS & other financial indicators.
- No uniformly in EPS but prominent difference in DPS and DPR.

At first, number of samples selected for the study are small i.e. only three banks are selected, it would be reasonable to quote dividend policy is bad or good by comparing three banks only.

Secondly, these are many factors, which affect the dividend policy. These are DPS, EPS, MPS, DPR, last year dividend paid, liquidity. Net worth but the used only a few financial factors among then therefore, validity of the result is not worthwhile.

Timalsena (1997) has conducted the study on "Dividend and Stock Prices" in 1997 by taking the data of 16 enterprises from 1990 to 1994. One of the major objectives of the study was price behavior. So, the study used simultaneous equation model as developed by Friend and Puckett (1964) to explain the price behavior. The main objectives of this study were as follows:

- To test the relationship between dividends per share and stock prices.
- To determine the impact of dividend policy on stock prices.
- To identify whether it is possible to increase the market value of the stock changing dividend policy or payout ratio.

The main findings of this study were as follows:

- The relationship between dividend per share and stock prices is positive in the sample companies.
- Dividend per share affects the share price variedly indifferent sectors.
- By changing the dividend per share might help to increase the market price of shares.
- The relationship between stock prices and retained earnings per share is not important.
- The relationship between stock prices and lagged earnings price ratio is negative.

Adhikari and Timalsena's study suffers from following limitation:

First of all, they analyze dividend in the macro level which is to vast for to study. It is necessary to comparative study and analysis of dividend in micro level.

Secondly, they have not calculated the hypothesis, especially ANOVA test therefore, whether the financial indicator such as EPS, DPS, DPR, results obtained values are significant or not.

Thirdly, they had not use, interpretation and analysis of financial indicators as dividend per share, last year dividend paid, liquidity and net worth which are directly affected by dividend policy. Therefore, validity of the result is not strong in the case of banks and insurance companies.

Adhikari (1999) the study has cover the period of 1990 to 1996 with the total observation of 47 in financial sector and 30 non-financial sectors. The main finding of this study was as follows:

- There are different in financial positions of high dividend paying and low dividend paying companies.
- Other things remaining the same, financial positions of high dividend paying companies is comparatively better than that of two dividend paying companies.

- Market price of the share is affected by dividend.
- Financial executives of Nepal reject dividend as a residual decision in Nepalese companies.
- Positive relationship between the ratio of dividend per share to book value per share and turnovers ratios.

Manandhar (2000) has describes about the relationship of dividend payout to other financial factors based on the data of seven commercial banks, five finance and insurance companies, two trading companies, two service-oriented companies and manufacturing company for the year 1987 to 1998.

The main problem of this study is to test whether Nepalese corporate firms the lagged earning and dividend paid to pay the dividend in the current year.

For the test of seventeen samples Nepalese corporate firms has been taken and different hypothesis has been tested. The conclusion drawn from the study is:

- There is significant relationship between change in dividend policy in terms of dividend per share and change in lagged earning.
- In overall there is positive relationship between change in lagged consecutive earning and dividend per share.
- There is relationship between distributed lag profits and dividend.
- When charge in lagged consecutive earnings is greater than zero in sixty-five percent the cases change in dividend per share.
- Overall increase in EPS (t) has resulted to increase in the dividend payout in sixty-six point six percent of the cases while decrease in EPS result decreases in dividend payments.
- Nepalese corporate firms have followed the practice of maintaining constant dividend payment per share.
- Corporate firm do not take into account that one-year and two-year lagged earnings.

In overall, Nepalese corporate firms are reluctant to decrease dividend either keeping dividend payment constant or higher to take the advantages of information contents and

signaling effect of dividend relating to the firms, continued progress and performance, sound financial strength, favorable investment environment, lower risk ability to maintain dividend rate and finally to increase the market price of the stocks in the stock market.

2.8 Concluding Remarks:

However, dividend is one of the widely researched areas in finance, it remains still puzzle. Dividend decision consists of division of earnings into cash paid to shareholder and ploughing back in the firm. Dividend studies basically focus on two issues of dividend: relevancy of dividend and dividend policy.

The first categories of these studies attempt to measure the relation between dividend payment and stock price. Some of them claimed irrelevancy of dividend in determining stock price [Miller-Modigliani (1961, 1966), Friend-Puckett (1964), Black-Scholes (1974), Black (1976), Miller-Scholes (1982) and Copeland-Weston (1988)] and the other claimed dividend are relevant and influence market price of share Walter's (1956), Gordon's (1959, 1962, 1966), Solomon (1963) and Ohlson (1990)]. The relevant theories of dividend have developed several hypotheses such as clientele, signaling, agency cost hypothesis etc. They all claimed relevancy of dividend and provides reasons behind it.

The other group of dividend studies focused on factors affecting dividend policy of a firm and seeks predictive power of independent variables. These studies ignore relevancy issue and attempt to develop best representing model of dividend policy. This study falls on this category and attempts to identify best representing model of dividend policy and practice in Nepalese context.

A number of dividend studies can be found in Nepalese context too. Majority of them are by the MBS students to fulfill their occur requirement. Other important dividend studies in Nepal are [Shrestha (1992), Pradhan (1993) and Manandhar (2000)]. These studies attempted to investigate dividend policy and practice in Nepal. However, respondent were surveyed several time to find dividend policy and practice in Nepalese commercial banks, data from the capital market has been rarely analyzed. This study attempts to fulfill this gap in Nepalese dividend studies. This study updates the finding of past studies with more and recent data.

CHAPTER- III

RESEARCH METHODOLOGY

This study is based on both primary and secondary data. Secondary data were used to analyse the properties of portfolios formed on dividends, and to examine the relationship between dividends and stock prices. While the basic objective of primary data analyse is to survey the opinions of financial executives on corporate dividend practices. This chapter describes the methodology employed in this study. Research methodology is a way to systematically solve the research problem. In other words, research methodology, describes the methods and process applied in the entire aspect of the study. A focus is given to the nature and sources of data, the model, statistical tools used, and limitations of the study.

3.1. Nature and Sources of Data

a) Analysis of the Properties of Portfolios Formed on Dividends:

To analyse the properties of portfolios formed on dividends of high and low dividend paying companies, the required data have been collected from Volumes II and III of Nepal Stock Exchange Ltd., covering a period of 5 years, i.e., from 2006 to 2010. To data, the number of companies listed in Nepal Stock Exchange Ltd. reched 321. Considering the study period of 2006 to 2010, usable data could be obtained for 8 companies as indicated in appendix 1.

This part of the study is based on pooled cross-section analysis of 40 observations. More data could not be obtained as Nepal Stock Exchange (NEPSE) Ltd. does not have financial statements of all listed companies from the year of listing. Data could also not be obtained on contracting the individual companies as they treated them confidential.

b) Relationship between Dividend and Stock Prices:

To examine the relationship between dividends and stock prices, the required data are available from the publication of NEPSE Ltd. The retained earnings per share is computed by using the identity.

RPS = EPS – DPS

Where,

RPS = Retained Earning Per Share

EPS = Earning Per Share

DPS = Dividend Per Share

For the purpose, MPS is calculated as the average of opening, closing, high, and low prices. The relationship is studied by classifying the companies into finance and non-finance sectors. Considering the study period of 2006 to 2010, usable data could be obtained for finance sector are as indicated below in Table 3.1.

Table 3.1

Finance Sector

S. No.	Name of the Companies	Year	Observations
1	Nepal Arab Bank Limited	2006, 2007, 2008, 2009, 2010	5
2	Himalayan Bank Limited	2006, 2007, 2008, 2009, 2010	5
3	Nepal SBI Bank Limited	2006, 2007, 2008, 2009, 2010	5
4	Bank of Kathmandu Limited	2006, 2007, 2008, 2009, 2010	5
5	Everest Bank Limited	2006, 2007, 2008, 2009, 2010	5
Total observation			25

Similarly, usable data could be obtained for non-finance sector as indicated below in Table 3.2

Table 3.2

Non-finance Sector

S. No.	Name of the Companies	Years	Observations
1	Bishal Bazar Company Limited	2006, 2007, 2008, 2009, 2010	5
2	Soaltee Hotel Limited	2006, 2007, 2008, 2009, 2010	5
3	Salt Trading Company Limited	2006, 2007, 2008, 2009, 2010	5
Total observation			15

c) Survey of Financial Executives:

The survey of financial executives is based on a structured questionnaire as well as unstructured dialogues in both the finance and non-finance sectors. A total of 8 companies were selected from both sectors: 5 from finance and 3 from non-finance sectors. A pre-test was conducted before finalizing the questionnaire. The sample selected for this section of the study is drawn from the groups, namely, the finance and non-finance sector executives dealing directly or indirectly on corporate dividend practice. The sample comprises 27 respondents: finance sector (15) and non-finance sector (12). The study is therefore based on visits to the organizations of these respondents located in Kathmandu Valley. The selected finance and non-finance sector respondents were also interviewed during the study visit.

3.2. The Model:

To analyse the properties of portfolios formed on dividends of high and low dividend paying companies, the theoretical statement of the model is that the decisions about the aggregate level of dividends, DIV may be regarded as subject to the constraints of risk, return, and other variables. The equation to be estimated has therefore been specified as under:

$DIV = a_0 + a_1 LIQ + a_2 LEV + a_3 EARN + a_4 TURN + a_5 CPV + Ui\ldots.$

The dependent variable, DIV chosen for the study has been specified as under:

- Dividend per share to book value per share (DPS/BVPS)
- Dividend per share to earning per share (DPS/EPS)
- Dividend per share to market price per share (DPS/MPS)

The independent variables are specified as:

- LIQ = Current ratio (CR) or Quick ratio (QR)
- LEV = Long term debt to total assets (LTD/TA) or long term debt to total capitalization (LTD/TC). The capitalization is specified as long term debt plus net worth.
- EARN = Return on assets, that is, earnings before tax to total assets (EBT/TA) or return on net worth, that is, earnings before tax to net worth (EBT/NW)

- TURN = Fixed assets turnover, that is, sales to average fixed assets (S/FA) or total assets turnover, that is, sales to average total assets (S/TA)
- COV = Interest coverage ratio, that is, earnings before tax to interest (EBT/I)
- U = Disturbance or error term.

The average balance sheet data are average of beginning of the year and end of the year. While data on sampled securities are sorted into three portfolios based on dividend per share to book value per share (DPS/BVPS), dividend per share to earnings per share (DPS/EPS), and dividend per share to market price per share (DPS/MPS). The smallest, intermediate, and largest companies are contained respectively in portfolios 1, 2 and 3. For security, the various measures of liquidity, leverage, profitability, turnover, and interest coverage are computed. They are then classified according to the portfolios formed above and average ratios are computed.

To examine the relationship between dividends and stock prices, the theoretical statement of the model is that the price of stock would depend on dividend per share, retained earnings per share and price earnings multiple of last year. This section of the study thus mainly focuses on four variables: stock prices, dividend per share, retained earnings per share and price earnings multiple.

The theoretical statements framed above may be stated as,

$$P_t = f (D_t, R_t, (P/E)_{t-1})$$

Where,

f_1, f_2 and $f_3 > 0$

P_t = Price of stock in time t

D_t = Dividend per share in time t

R_t = Retained earnings per share in time t

$(P/E)_{t-1}$ = Price earnings multiple in time t-1

In equation:

$$Pt = a + b_1 D_t + b_2 R_t + b_3 (P/E)_{t-1} + U$$

Where,

U = Error term

Modifying the above equation, this study uses lagged earnings price ratio instead of price earnings multiple. Then, the modified equation for the study would be,

$$Pt = a + b1\ Dt + b2\ Rt$$

Where,

(P/E) t-1 = Lagged earnings price ratio

To determine whether the variables of dividend per share and retained earnings per share are related to stock prices, the following regression model has been applied.

Pt = Price of stock in time t.

Dt = Dividend per share in time t.

Rt = Retained earnings per share in time t.

3.3. Statistical Tools Used:

A brief explanation of statistical tools used in this study is as follows:

3.3.1. Coefficient of Correlation (r):

The coefficient of correlation measures the degree of relationship between two sets of figures. Correlation analysis is the statistical tool that can be used to describe the degree to which one variable is linearly related to another. It is the square root of the coefficient of determination. Correlation can be either positive or negative. It both variables are changing in the same direction, then correlation is said to be positive but when the variation in the two variables take place in opposite direction, the correlation is called negative. In this study, coefficient of correlation is calculated between stock prices and dividends, stock prices and retained earnings,

stock prices and lagged earnings price ratios, and retained earnings and lagged earnings price ratios for both sectors.

3.3.2. Coefficient of (Multiple) Determination (r^2):

The coefficient of determination is a measure of the degree of liner association or correlation between two variables one of which happens to be independent and other being dependent variables. In other words r^2 measures the percentage total variation in dependent variables explain by independent variables. The coefficient of determination value can have ranging from zero to one. If r^2 is 0.90, which indicates that the independent variables used in regression model explain 90 % of the total variation in the dependent variable. If the regression line is a perfect estimator, r^2 will be equal to +1. Thus, the value r^2 is zero, when there is no correlation. In this study, the co-efficient of determination is calculated for the model prescribed above.

3.3.3. Regression Constant (a):

The value of constant, which is the intercept of the model, indicates the average level of dependent variable when independent variable is zero (0). In other words, it is better to understand that 'a' (constant) indicates the mean or average effect on dependent variable of all the variables omitted from the model. In this study, regression constant is calculated for selected dependent and independent variable specified in the model, which is presented above.

3.3.4. Regression Co-efficient (b_1, b_2, b_3……..):

The regression co-efficient of each independent variable indicates the marginal relationship between that variable and value of dependent variable, holding constant the effect of all other independent variables in regression model. In other words, the co-efficient describes changes in independent variables affect the value of dependent variables estimate. In this study, regression co-efficient is calculated for selected dependent and independent variables specified in the model, which is presented above.

3.3.5. Standard Error of Estimate (SEE):

In regression equation perfect prediction is not practically possible. The standard estimate of error measures the accuracy of estimated figures and dispersion about an average line. If SEE is 0 (Zero) then there is no variation about the line and the correlation line will be perfect. SEE helps to ascertain how good and respective the regression line is as a description of the average relationship between two series. In this study, SEE has been calculated for selected dependent variables and independent variables.

3.3.6. t-Statistics:

To test the validity of our assumption, if sample size is less than 30, t-test is used. For applying t-test in the context of small sample, the 't' values is calculated first and compared with the table value of 't' at a certain level of significance for given degree of freedom (in this study the 't' values are computed with the help of computer). If the calculated value of 't' exceeds the table value (say $t_{0.05}$) we infer that the difference is significant at 5% level but if 't' values is less than the concerning table value of the 't' the differences in not treated as significant.

3.3.7. F-Test:

To test validity of our assumption, we can use F-test also. The differences between two sample means can be studied through t-test whereas to examine the significance of the differences between more than two sample means at one and the same time, F-test is used. F-test, i.e., the technique of analysis of variance enables us to test or for the significance of the differences between more than two sample means. Using this technique, one will be able to make inferences about whether his regression equation provides statistically significant result or not.

3.3.8. Simple Arithmetic Mean:

Simple arithmetic mean is the sum of the values of all the elements in the sample (Σx) and divide by the number of elements in the sample (n).

3.3.9. Weighted Mean:

Weighted mean is an average that takes into account how important each value is to the overall total. In this study, weighted mean is calculated to analyses rank wise number of responses to field survey.

3.3.10. Median:

The median is a single value that measures the central item in the data. Half the items lie above the median, half below it. If the data set contains and odd number of items, the middle item of the array is the median. In this study, median values of responses for each statement of observations on corporate dividend practices have been computed.

3.3.11. Quartiles:

Quartiles are the fractiles that divide the data into four equal parts. This study has used quartiles in the case of having equal median values for statement of observations of corporate dividend practices.

3.3.12. Chi-Square Test (χ^2):

The Chi-square test is an important test amongst the several tests of significance developed by statisticians. Chi-square is a statistical measure used in the context of sampling analysis for comparing a variance to a theoretical variance. As a non-parametric test, it can be used to determine if categorical data shows dependency or the classifications are independent. In this study chi-square values are computed to assess whether the difference in the opinions of the3 finance and non-finance sector respondents as to the major aspect of corporate dividend practices in Nepal is significant.

3.3.13. Spearman's Rank Correlation:

Spearman's rank correlation is a measure of correlation that exists between the two sets of rank. In other words, it is a measure of association that is based on the ranks of the observations and not on the numerical values of the data. This is calculated in this study to find the degree of relationship between the responding groups from the finance and non-finance sectors, it is tested for significance.

3.4. Limitation of the study:

In the context of Nepal, data problem is acute. Even the financial statements of the companies published by them are not readily available since they are treated as confidential. Nepal Stock Exchange Ltd. publishes financial statements of some of the listed companies to avail and ease information regarding capital market. It is still unable to provide required data of all listed companies from the year of listing. There is no data base which makes it difficult to carry on any research in Nepalese capital market.

Secondary data analysis is based on financial data obtained from the publications of NEPSE Ltd. Thus it possesses all the inherent limitations of financial data. The regression results are based on pooled cross-section analysis of only limited observations. The study does not provide scope for the time series analysis as only a few years data are available for the sample companies.

Survey research typically involves some non-response bias and although steps were taken to ensure a high response rate, this study is no exception. Some of the questionnaires have been returned by the respondents with incomplete responses.

CHAPTER– IV

PRESENTATION AND ANALYSIS OF SECONDARY DATA

The presentation of data is the basic organization and classification of the data for analysis. The collected data need to be aggregated into a form that presents the summary of answers from respondents. The analysis of data consists of organizing, tabulating, performing statistical analysis and drawing inferences. The purpose of this chapter is to carry out secondary data analysis. Firstly, it attempts to analyse the properties of portfolios formed on dividend per share to book value per share, dividend per share to earnings per share, and dividend per share to market price per share. Secondly, it attempts to analyse the effect of dividends, retained earnings and lagged earnings price ratio on market price of share.

4.1. Properties of Portfolios Formed on Dividends:

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders. There are the different factors that affect dividends such as earnings, liquidity position, level of leverage, assets turnover and interest coverage. These factors are the indicators of financial position of a firm. If a firm has good performance in terms of these factors, it will be able to provide returns in the form of dividends to the shareholders. In this context, this section of the study attempts to analyse the properties of portfolios formed on dividends.

In Nepal, the listing of shares in NEPSE Ltd. Took place for the first time in 1986. The Nepalese capital market is characterized by a low trading volume, absence of professional brokers, early stage of growth, limited movement of share prices, and limited information available to investors. Viewed in this way, this section of the study is expected to provide at least some insight into capital market behavior in Nepal.

To analyse the properties of portfolios formed on dividends of high and low dividend paying companies, all the sampled securities are sorted out into three portfolios based on dividend per share to book value per share (DPS/BVPS), dividend per share to earnings per share (DPS/EPS), and dividend per share to market price per share (DPS/MPS). The smallest, intermediate, and largest companies are contained in portfolio 1, 2 and 3 respectively. For each security, the various measure liquidity, leverage, profitability, assets turnover, and interest coverage

computed. They are then classified according to portfolios from above, and average ratios are computed.

4.1.1. Properties of Portfolios Formed on Dividend Per Share to Book Value Per share:

The properties of portfolios formed on the ratio of dividend per share to book value per share, and its relationship with various measure liquidity, leverage, profitability, assets turnover, and interest coverage studied and analysed first. The results are presented in Table 4.1. nd others, the results indicate that stocks with larger ratio of dividend per share to book value per share have higher liquidity. The current ratio increased from 1.90 times for the smallest portfolio to 2.29 times for the largest. Similarly, the quick ratios are 1.49 times for the smallest portfolio, and 1.89 times for the largest. However, liquidity position of stocks paying higher dividends is also more variable as companies stocks paying lower dividends.

Similarly, stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. The ratio of long-term debt to total assets has decreased from 22.25 percent for the smallest portfolio and 10.72 percent for the largest. Similarly, the ratio of long-term debt to total capitalization has decreased from 39.50 percent for the smallest portfolio to 25.21 percent for the largest.

Table 4.1

Properties of Portfolios Formed on Dividend Per Share to Book Value Per Share

Portfolio		1 Smallest	2 Intermediate	3 Largest
Panel A	**Means**			
DPS/BVPS	(%)	3.05	6.39	15.65
Liquidity:				
CR	(times)	1.90	1.90	2.29
QR	(times)	1.49	1.52	1.89
Leverage:				
LTD/TA	(%)	22.25	17.35	10.72
LTD/TC	(%)	39.51	43.92	25.21
Earnings:				
EBT/TA	(%)	4.38	6.81	14.70
EBT/NW	(%)	16.78	24.41	47.93
Turnover:				
NS/FA	(times)	25.50	46.77	112.46
NS/TA	(times)	1.62	2.37	3.49
Coverage:				
EBT/I	(times)	1.42	14.57	25.33
Panel B: Standard Deviation				
DPS/BVPS	(%)	1.60	1.27	7.41
Liquidity:				
CR	(times)	1.20	0.99	3.98
QR	(times)	1.04	1.04	5.01
Leverage:				
LTD/TA	(%)	20.23	17.60	6.89
LTD/TC	(%)	19.86	23.14	10.23
Earnings:				
EBT/TA	(%)	5.97	5.72	10.50
EBT/NW	(%)	14.00	12.67	23.65
Turnover:				
NS/FA	(times)	55.82	60.25	160.45
NS/TA	(times)	1.05	1.18	2.81
Coverage:				
EBT/I	(times)	2.09	42.31	100.30

Sources: NEPSE Ltd.

It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks paying smaller dividends are also more variable as compared to stocks paying higher dividends.

When the relationship between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability. Return on assets has increased from 4.38 percent for the smallest portfolio to 14.70 percent for

the largest. Similarly, return on net worth has increased from 16.78 percent for the smallest portfolio to 47.93 percent for the largest. However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

Positive relationship is observed between the ratio of dividend per share to book value per share and turnover ratios. Stocks with larger ratio of dividend per share to book value per share also have higher turnover ratios. Fixed assets turnover has increased from 25.50 times for the smallest portfolio to 112.46 times for the largest. Similarly, total assets turnover has increased from 1.62 times for the smallest portfolio to 3.49 times for the largest. Turnover ratios of stocks paying larger dividends are also more variable than that of stock paying smaller dividends.

There is also a positive relationship between the ratio of dividend per share to book value per share and interest coverage. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage. Interest coverage has increased from 1.42 times for the smallest portfolio to 25.33 times for the largest. Interest coverage of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

The above relationships may be seen clearly from the estimates of average slopes from pooled cross section linear regressions of dividend per share to book value per share on various measures of liquidity, leverage, return, turnover, and interest coverage (Table 4.2).

Regression of Dividend Per Share to Book Value Per Share on Various Measures of Liquidity, Leverage, Return, Turnover, and Interest Coverage

Table 4.2

Average Slopes (t-statistics) from Pooled Cross Section Linear Regression of Dividend Per Share to Book Value Per Share on Various Measures of Liquidity, Leverage, Return, Turnover, and Interest Coverage

Portfolio	1 Smallest			2 Intermediate			3 Largest		
Models	1	2	3	1	2	3	1	2	3
CR	0.66 (6.15)**			0.11 (0.28)	0.16 (0.32)		0.88 (3.48)**	0.12 (0.84)	0.81 (3.18)**
QR		0.09 (0.09)	0.71 (0.76)			0.01 (0.02)			
LTD/TA	-0.06 (6.04)								
LTD/TC		-0.06 (5.93)**	-0.06 (4.08)*						
EBT/TA	0.004 (0.14)		0.06 (0.73)	0.10 (0.99)		0.09 (0.91)	0.47 (3.19)**		0.55 (2.88)*
EBT/NW		0.06 1.64			0.004 (0.12)			0.39 (9.56)**	
NS/FA	0.02 (3.12)*		0.015 (0.73)	0.001 (0.22)		0.007 (0.14)	0.02 (1.90)		0.01 (1.82)
NS/TA		0.88 (1.84)			0.03 (0.06)			0.66 (1.62)	
EBT/I	0.33 (3.91)*	0.12 (0.60)	0.29 (1.23)	0.12 (0.90)	0.06 (0.43)	0.13 (0.88)	0.008 (0.09)	0.003 (0.50)	0.004 (0.004)
Adj. R^2	0.97	0.91	0.85	0.26	0.38	0.27	0.56	0.87	0.54

Note: Coefficient in ( ) represent values. * and ** represent that results are significant at 5% and 1% level of significance respectively.

Among others, it indicates positive relationship of dividend per share to book value per share with liquidity, profitability, assets turnover, and interest coverage, and negative relationship with leverage. The negative relationship between dividends per share to book value per share and leverage may be attributable to the fact that companies paying higher dividends are able to maintain their capital structure by employing relatively low degree of leverage.

4.1.2. Properties of portfolios formed on dividend per share to earnings per share:

After studing the properties of portfolios formed on dividend per share to book value per share, it is felt necessary to study properties of portfolios formed on dividend per share to earnings per share. Table 4.3 presents properties of portfolios formed on the ratio of dividend per share to earnings per share, and its relationship with various measures of liquidity, leverage,

profitability, assets turnover, and interest coverage. The table 4.3, among others, reveals that there is a positive relationship between dividend payouts and quick ratio. The current ratio has increased from 1.61 times for the smallest dividend payout portfolio to the 1.64 times for the largest. On the other hand, the quick ratio has decreased from 1.54 times for the smallest portfolio to 1.04 times for the largest. It may be due to the higher reduction of quick assets rather than current assets with higher dividend payouts. The position of current ratio of stocks paying larger dividends is also more variable as compared to stocks paying lower dividends. The position of quick ratio of stocks paying larger dividends is less variable as compared to stocks paying lower dividends.

Similarly, the positive relationship is noticed between dividend payout ratios and leverage ratios. Stocks with larger dividend payouts have larger leverage ratios as is evident from the ratio of long-term debt.

Table 4.3

Properties of Portfolios Formed on Ratio of Dividend Per Share to Earnings Per Share

Portfolio		1 Smallest	2 Intermediate	3 Largest
Panel A	**Means**			
DPS/BVPS	(%)	23.97	47.68	90.36
Liquidity:				
CR	(times)	1.61	2.83	1.64
QR	(times)	1.54	2.53	1.04
Leverage:				
LTD/TA	(%)	23.94	38.16	29.89
LTD/TC	(%)	45.94	55.36	50.85
Earnings:				
EBT/TA	(%)	6.34	8.26	8.29
EBT/NW	(%)	28.39	21.40	17.86
Turnover:				
NS/FA	(times)	25.66	143.30	102.56
NS/TA	(times)	1.16	3.61	2.49
Coverage:				
EBT/I	(times)	1.33	12.26	21.18
Panel B: Standard Deviation				
DPS/BVPS	(%)	9.93	8.65	40.29
Liquidity:				
CR	(times)	1.10	4.77	1.18
QR	(times)	1.14	4.82	0.78
Leverage:				
LTD/TA	(%)	26.22	23.38	18.46
LTD/TC	(%)	20.77	26.96	26.71
Earnings:				
EBT/TA	(%)	5.50	9.94	10.66
EBT/NW	(%)	17.41	15.90	21.53
Turnover:				
NS/FA	(times)	50.52	120.21	125.81
NS/TA	(times)	0.55	2.34	2.15
Coverage:				
EBT/I	(times)	1.77	52.72	97.85

Sources: NEPSE Ltd.

The total assets and the ratio of long-term debt to total capitalization. The ratio of long-term debt to total assets has increased from 23.94 percent for the smallest portfolios to 29.89 percent for the largest. Similarly, the ratio of long-term debt to total capitalization has increased from 45.94percent for the smallest portfolio to 50.58 percent for the largest. Long-term debt to total assets ratio is more variable for the stocks paying lower dividends whereas long-term debt to total capitalization is less variable for the stocks paying lower dividends. It indicates that companies with larger dividend payouts have higher leverage ratios.

There is a negative relationship observed between dividend payouts and earnings before tax to net worth. On the other hand, there is a positive relationship between dividend payouts and earnings before tax to total assets. Return on net worth has decreased from 28.59 percent for the smallest portfolio to 17.86 percent for the largest. On the other hand, return on assets has increased from 6.34 percent for the smallest portfolio to 8.29 percent for the largest. However, the return on both of the total assets and net worth is more variable for stock paying higher dividends.

The relationship between dividend payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts also have higher turnover ratios. Fixed assets turnover has increased from 25.66 times for the smallest portfolio to 102.56 times for the largest. Similarly, total assets turnover has increased from 1.16 times for the smallest portfolio to 2.49 times for the largest. Turnover ratios of stocks paying larger dividends are also more variable.

A positive relationship is also observed between dividend payouts and interest coverage. Stocks with higher dividend payouts also have higher interest coverage. Interest coverage has increased from 1.33 times for the smallest portfolio to 21.18 times for the largest. Interest coverage of stocks paying larger dividend are also more variable.

Regression of Dividend Payouts on Various Measures of Liquidity, Leverage, Return, Turnover, and Interest Coverage

The above relationship may be seen clearly from the estimates of average slopes from pooled cross section linear regressions of dividend per share to earnings per share on various measures of liquidity, leverage, return, turnover, and interest coverage (Table 4.4). Among others, it indicates positive relationship of dividend per share to earnings per share with current ratio, leverage, total assets turnover and interest coverage; and negative relationship with quick ratio and return on net worth.

Table 4.4

Average Slopes (t- statistics) from Polled Cross Section Linear Regressions of Dividend Per Share to Earnings Per Share on Various Measures of Liquidity, Leverage, Return, Turnover and Interest Coverage.

Portfolio	1 Smallest			2 Intermediate			3 Largest		
Models	1	2	3	1	2	3	1	2	3
CR	2.14 (0.82)			9.71 (2.69)			47.53 (1.50)		
QR		-1.31 (0.36)	-1.52 (0.42)		-11.77 (2.48)	-4.95 (1.28)		-90.40 (1.71)	-85.73 (1.45)
LTD/TA	0.26 (1.50)			0.30 (1.89)			1.76 (1.43)		
LTD/TC		0.29 (0.99)	0.22 (0.87)		0.01 (0.11)	0.01 (0.11)		0.22 (0.18)	1.16 (0.97)
EBT/TA	0.84 (0.37)		0.49 (0.16)	4.45 (1.80)		0.69 (0.38)	12.39 (0.70)		10.08 (0.51)
EBT/NW		-0.003 (0.01)			-0.78 (1.75)			-3.95 (1.01)	
EBT/I	3.11 (0.64)	1.86 (1.15)	2.79 (0.48)	9.72 (1.97)	0.99 (0.63)	1.00 (0.26)	8.19 (0.19)	8.28 (0.27)	10.41 (0.26)
Adj. R^2	0.06	0.28	0.26	0.34	0.27	0.40	0.09	0.31	0.28

Note: Coefficient in ( ) represent values.

The results of this study are different from the earlier study conducted by pradhan (1993) in two aspects: Firstly, the result of present study indicates that there is positive relationship between dividend payout ratios and leverage ratios whereas the relationship was found negative in earlier study. Secondly, the result of the present study indicates that there is negative relationship between dividend payouts and return on net worth whereas the same was found positive in earlier study. The variation between the results of these two studies may be attributable to increased sample size of the present study.

4.1.3. Properties of portfolios formed on dividend yield:

After studying the properties of portfolios formed on dividend payout, it is felt necessary to study properties of portfolios formed on dividend yield. Table 4.5 presents properties of portfolios formed on the ratio of dividend per share to market price per share (dividend yield), and its relationship with various measures of liquidity, profitability, assets, turnover, and interest coverage.

The Table 4.5 among others, reveals that the stocks with larger ratio of dividend per share to market price per share have higher liquidity. The current ratio has increased from 1.58 times for the smallest portfolio to 2.73 times for the largest. Similarly, the quick ratios are 1.46 times for the smallest portfolio, and 2.18 times for the largest. Liquidity position of stocks paying larger dividend are also more variable as compared to stocks paying lower dividends.

Similarly, stocks with larger ratio of dividend per share to market price per share have lower leverage ratios. The ratio of long-term debt to total assets has decreased from 21.24 percent for the smallest portfolio to 20.56 percent for the largest. Similarly, the ratio of long-term debt to total capitalization has decreased from 38.06 percent for the smallest portfolio to 37.50 percent for the largest. Leverage ratios of stocks paying higher dividends are also more variable as compared to stocks paying lower dividends.

Table 4.5

Properties of Portfolios Formed on Ratio of Dividend Per Share to Market Price Per Share

Portfolio		1 Smallest	2 Intermediate	3 Largest
Panel A	**Means**			
DPS/BVPS	(%)	1.36	4.86	14.74
Liquidity:				
CR	(times)	1.58	1.96	2.73
QR	(times)	1.46	1.51	2.18
Leverage:				
LTD/TA	(%)	21.24	16.24	20.56
LTD/TC	(%)	38.06	40.81	37.50
Earnings:				
EBT/TA	(%)	6.34	5.54	13.62
EBT/NW	(%)	24.28	23.10	38.17
Turnover:				
NS/FA	(times)	5.87	50.09	108.59
NS/TA	(times)	1.73	2.40	4.05
Coverage:				
EBT/I	(times)	1.66	9.99	25.03
Panel B: Standard Deviation				
DPS/BVPS	(%)	0.77	1.08	9.88
Liquidity:				
CR	(times)	1.27	1.05	5.04
QR	(times)	1.30	0.84	5.11
Leverage:				
LTD/TA	(%)	23.77	18.71	24.56
LTD/TC	(%)	21.75	23.97	38.72
Earnings:				
EBT/TA	(%)	6.48	5.23	11.47
EBT/NW	(%)	14.76	18.11	24.82
Turnover:				
NS/FA	(times)	15.32	53.69	108.85
NS/TA	(times)	0.86	1.28	2.48
Coverage:				
EBT/I	(times)	2.84	45.49	103.45

Sources: NEPSE Ltd.

When studied the relationship between dividend yield and profitability, it is noticed that stocks with larger ratio of dividend per share to market price per share also have higher earnings. Return on assets has increased from 6.34 percent for the smallest portfolio to 13.62 percent for the largest. Similarly, return on net worth has increased from 24.28 percent for the smallest portfolio to 38.17 percent for the largest. The earnings ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

The study of relationship between dividend yield and turnover ratios indicates that there is a positive relationship. Fixed assets turnover has increased from 5.87 times for the smallest portfolio to 108.59 times for the largest. Similarly, total assets turnover has increased from 1.73 times for the smallest portfolio to 4.05 times for the largest. Turnover ratios of stocks paying larger dividends are also more variable than that of stock paying smaller dividends.

When studied the relationship between the ratio of dividend yields and interest coverage, it is noticed that stocks with higher dividend yield have higher interest coverage. Interest coverage has increased from 1.66 times for the smallest portfolio to 25.03 times for the largest. Interest coverage of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

Regression of dividend yield on various measures of liquidity, leverage, return, turnover, and interest coverage

The above relationship may be seen clearly from the estimates of average slopes from pooled cross section linear regressions of dividends per share to market price per share on various measures of liquidity, leverage, return, turnover, and interest coverage (Table 4.6). Among others, it indicates positive relationship of dividend per share to market price per share with liquidity, profitability, assets turnover and interest coverage, and negative relationship with leverage.

Table 4.6

Average Slopes (t-statistics) from Pooled Cross Section Linear Regressions of Dividend Per Share to Market Price Per Share on Various Measures of Liquidity, Leverage, Return, Turnover and Interest Coverage

Portfolio	1 Smallest			2 Intermediate			3 Largest		
Models	1	2	3	1	2	3	1	2	3
CR	1.39 (0.89)			2.74 (0.62)			0.36 (1.31)		
QR		2.42 (1.15)	3.20 (5.49)*		0.87 (0.34)	4.42 (3.08)		0.13 (0.38)	0.38 (1.34)
LTD/TA	-0.04 (0.55)			-0.08 (0.68)					
LTD/TC		-0.02 (0.28)	-0.06 (1.66)		-0.003 (0.04)	0.06 (1.55)			
EBT/TA	0.48 (1.73)		0.50 (5.39)*	2.10 (0.76)		0.80 (1.89)	0.24 (1.54)		0.24 (1.55)
EBT/NW		0.08 (1.53)			0.01 (0.52)			0.18 (2.24)*	
NS/FA	0.08 (1.82)		0.008 (0.36)	0.04 (0.72)		0.06 (1.22)	0.06 (4.05)**		0.06 (4.03)**
NS/TA		2.33 (0.89)			1.12 (0.26)			2.76 (1.80)	
EBT/I	0.66 (1.16)	0.61 (0.88)	1.48 (4.53)*	3.16 (0.86)	0.17 (0.26)	1.46 (2.15)	0.005 (0.43)	0.001 (0.10)	0.004 (0.41)
Adj. R^2	0.02	0.02	0.84	0.60	1.16	0.14	0.68	0.45	0.68

Note: Coefficient in ( ) represent values. * and ** represent that results are significant at 5% and 1% level of significance respectively.

To conclude, the findings of present study are more or less similar to the findings of earlier study (pradhan, 1993). The findings are contradictory only in the case of relationship of dividend per share to earnings per share with the leverage and the relationship of dividend per share to earnings per share with return on net worth. Such a contradiction does not seem unusual as the present situation of the country has changed over time. On the whole, the companies paying larger dividends have a good financial position. Similarly, the companies with higher dividend payouts and higher dividend yield have an improved financial position.

4.2. Relation between dividends and stock prices:

Numerous studies have documented that dividend increases lead to stock price appreciation. The impact of a firm's dividend policy on the valuation of its shares is a recurring topic in the literature of finance. Myron Gordon (1962) and James E. Walter (1966) concluded that dividend policy of a firm affects its value. According to them firms may have three

situations. They are growth, normal and decline. When the firm is in growth condition, then dividends are negatively correlated with stock prices. The dividends of declining firm are positively correlated with stock prices. In the normal firm, there is no correlation between dividends and stock prices.

Friend and Puckett (1964) concluded that management might be able to increase stock prices in non growth industries by raising dividends and in growth industries by greater retention. The findings made by Van Horn and McDonald indivated that the "cost" disadvantage of new equity issues relative to retained earnings widens as relatively large amounts of new equity are raised, so that the payment of dividends through excessive equity financing reduces share price. Chawla and Srinivasan (1987) studied the impact of dividend and retention on share price of the Indian chemical and sugar companies and found that in case of chemical industry both dividend and retained earnings significantly explain the variations in share price. Further, they found that the impact of dividend is much more pronounced than that of retained earnings. In an equilibrium, value maximizing behavior would lead to an aggregate supply dividends that meets, but does not exceed, the aggregate demand for dividend income from investors that value dividend at least as highly as capital gains. Thus, there are these studies in the field of dividends and stock prices in the developed capital market, their applicability is yet to be verified in the context of under developed capital market like that of Nepal.

Similarly, a study of Dividends and Stock Prices (1997) conducted in the context of Nepal concluded that the relationship between dividend per share and stock price is positive, and dividend per share affects the share prices variedly in different sectors. This study has become old and needs to be updated because of the rapid changes taking place in the capital market of Nepal. The present study, therefore, attempts to assess the relationship between dividends and stock prices in the context of recent capital market of Nepal.

4.2.1. Analysis of Means and Standard Deviations:

First of all, it is worthwhile to determine means and standard deviations of the variables used in the regression analysis. The means and standard deviation for finance sector, non-finance sector and total (both of finance and non-finance) sector are presented in Table 4.7

Table 4.7

Mean and Standard Deviations for Stock Price, Dividends, Retained Earnings and Lagged Earnings Price Ratio

Variables	Cases	Means	Standard Deviations
Finance Sector			
Stock Price (P_t)	25	570.55	369.28
Dividends (D_t)	25	25.03	20.44
Retained Earnings (R_t)	25	51.65	75.14
Lagged Earnings Price Ratio $(E/P)_{t-1}$	25	0.11	0.11
Non-Finance Sector			
Stock Price (P_t)	15	445.69	551.69
Dividends (D_t)	15	14.37	12.44
Retained Earnings (R_t)	15	9.44	12.80
Lagged Earnings Price Ratio $(E/P)_{t-1}$	15	0.14	0.19
Total Sector			
Stock Price (P_t)	40	522.25	443.71
Dividends (D_t)	40	20.19	15.71
Retained Earnings (R_t)	40	33.34	51.25
Lagged Earnings Price Ratio $(E/P)_{t-1}$	40	0.12	0.14

Note: Market price per share, dividend per share, retained earnings per share and lagged earnings price ratio are represented by. P_t, D_t, R_t and $(E/P)_{t-1}$

Table 4.7 indicates that finance sector pays more dividends than the non-finance sector. However, the variability in dividend payment is greater in finance sector. Similarly, finance sector has more retained earnings than the non-finance sector. Similarly, finance sector has more retained earnings than the non-finance sector. Retained earnings are, however, more variable for finance sector. As regards lagged earnings price ratio, it is more variable for non-finance sector.

4.2.2. Multiple Regression Analysis:

When the multiple regression models having two independent variables are run, the results are obtained as presented in Table 4.8. it presents the usual simple linear relationship between average stock prices, dividend per share and retained earnings per share.

Table 4.8

Regression of Average Stock Prices on Dividend Per Share and Retained Earnings Per Share

(Regression Equation: $P_t = a + b_1D_t + b_2R_t$)

Sectors (Sample Size)	Regression Coefficients					
	a	b_1	b_2	R^2	S.E.E.	F
Finance Sector (n=25)	320.72 (3.97) [81.12]	4.90 (1.28) [3.83]	1.94 (2.05)* [0.94]	0.76	129.201	3.64*
Non-finance Sector (n=15)	384.33 (2.63) [144.55]	18.13 (1.89) [9.25]	-20.37 (-2.29) [8.93]	0.19	501.74	3.14
Total Sector (n=40)	303.61 (3.35) [86.49]	4.28 (1.76) [2.99]	1.85 (1.26) [1.04]	0.46	429.32	3.24*

Note: Market price per share, dividend per share, retained earnings per share are represented by P_t, D_t, and R_t respectively. And n designates no. of observations and R^2 designates coefficient of multiple determination. Values in ( ) and [ ] represent t-value and standard error of coefficients respectively.

The results presented in table 4.8 clearly shows the customary strong dividend and relatively weak retained earnings effect on share price in both finance and non-finance sectors, and in total sector also. In finance sector, one rupee increase in dividend per share leads to the average of about rupees 4.90 increase in stock prices, holding the retained earnings variable constant. The same is noticed to be rupees 18.13 and rupees 4.28 in non-finance sector and total sector respectively. The value of multiple coefficient of determination (R^2) is very small (0.76) in finance sector while it goes down to 0.19 in non-finance sector. The same for total sector is noticed to be 0.46. The t-value of coefficient of dividend per share is not statistically significant in all the sectors (i.e., finance, non-finance, and total sector) at 5 percent level of significance. On the other hand, one rupee increase in retained earnings per share resulted in only rupees 1.94 increase in stock prices, holding dividend per share constant in financed sector. The same is noticed to be rupees 20.37 decrease in non-finance sector and rupees 1.85 increase in total sector. The t-values of retained earnings are significant for finance and non-finance sectors at 5 percent level of significance. The same is noticed insignificant for total sector at 5 percent level of significance. Hence, dividend is stronger than retained earnings to explain the variation in stock price.

One of the important points to be noted here is that the F-statistics for the regression are significant at 5 percent level of significance indicating that the regression equations provide a

statistically significant explanation of variation in stock prices of finance sector and total sector. While the F-statistics is not significant at 5 percent level of significance in non-finance sector.

As regards the regression model, $p_t = a + b_1 D_t + b_2 R_t$ and the above explanation, the inferences drawn are that the coefficients of dividend are very high compared to the coefficients of retained earnings in both individual sectors and total sector. This indicated that there is a positive relationship between dividends and stock prices and dividends have a predominant influence on stock prices in both finance and non-finance sectors.

The results of present study are more or less similar to the results of earlier study (Timilsena, 1997). However, the model of the present study has given more statistically significant results than the same model of earlier study. The values of coefficient of determination and F-statistics of the present study are higher than the values of coefficient of determination and F-statistics of earlier study. The statistically more significant results of the present study may be attributable to the increased sample size of the present study.

It may now be interesting to see the results when added one more independent variable in the dividend model. Table 4.9 presents the regression results of average stock prices on dividends, retained earnings and lagged earnings price ratio.

Table 4.9

Regression of Average Stock Prices on Dividend Per Share and Retained Earnings Per Share and Lagged Earnings Price Ratio

(Regression Equation: $P_t = [a + b_1 D_t + b_2 R_t + b3\ (E/P)t\text{-}1]$

Sectors (Sample Size)	Regression Coefficients						
	a	b_1	b_2	b_3	R^2	S.E.E.	F
Finance Sector (n=25)	286.69 (3.64) [155.24]	3.13 (0.74) [4.62]	0.80 (0.56) [1.46]	578.16 (0.34) [637.16]	0.15	363.04	1.99
Non-finance Sector (n=15)	556.05 (3.81) [109.57]	-24.58 (-3.31)** [7.13]	-33.35 (-3.36)** [8.09]	228.76 (-3.57) [419.67]	0.50	371.30	7.97**
Total Sector (n=40)	418.99 (4.69) [82.05]	6.30 (1.46) [4.22]	2.74 (2.20) [1.71]	-796.72 (-1.82) [347.95]	0.21	434.72	2.94

Note: Market price per share, dividend per share, retained earnings per share and lagged earnings price ratio are represented by P_t, D_t, R_t and $(E/P)_{t-1}$ respectively. Coefficients in ( ) and [ ] represent t-value and standard error of estimate respectively. $*$ and $**$ denote the significance of coefficients at 5% and 1% level of significance respectively.

The results presented in table 4.9 indicate that the estimated coefficients have expected signs for dividends, retained earnings and lagged earnings price ratio in finance sector. The same is as expected for dividends and retained earnings in total sector and only for dividends in non-finance sector. The other variables do not have signs as expected.

The coefficient of multiple determination (R^2) are 0.15 and 0.21 for finance sector and total sector respectively. These values of R^2 indicate that 15 percent and 21 percent of the total variation in stock prices of finance sector and total sector have been explained b the regression model (or, by, the explanatory variables used in the regression model), a very low satisfactory level of explanation for the model as a whole. On the other hand, the same is 0.50 of non-finance sector which indicates that 50 percent of the total variation in stock prices has been explained by the regression model.

The F-statistics for the regression are 1.99 and 2.94 for finance sector and total sector respectively, which are lower than their corresponding critical values at 5 percent level of significance indicating that the regression equations don not provide statistically significant explanations of variations in stock prices of finance sector and total sector . on the other hand, the F-statistics for regression is 7.97 of non-finance sector, which is higher than the critical value at 1 percent level of significance indicating that the regression equation provides a statistically significant explanation of variation in stock prices of non-finance sector.

Table 4.9 also sets forth that coefficient of lagged earnings price ratio is very high in finance sector as compared to the non-finance and total sectors. It indicates that the effect of lagged earnings price ratio in explaining the variation in stock price of finance sector is more prominent. Except the coefficient of lagged earnings price ratio in finance sector, the coefficients of dividends are very high compared to the coefficient of retained earnings and lagged earnings price ratio in both the individual sectors and total sector. This indicates that the effect of dividends on stock prices is customarily strong and relatively weak effect of retained earnings and lagged earnings price ratio in all the sectors. However, the effect is largest in non-finance sector. In this sector, the coefficients of both retained earnings and lagged earnings price ratio are negative indicating that only dividends play dominant role in explaining the variation in the stock prices of this sector.

In the case of finance sector, the coefficient of dividend is 3.13, which indicates that one rupee increase in dividend leads on the average to rupees 3.13 increase in stock prices, holding the other variables constant. Similarly, in case of non-finance sector, coefficient of dividend is -24.58, which indicates that, holding other variables of the model constant, one rupee decrease in dividend leads to an average of about rupees -24.58 decrease in share prices. This coefficient is statistically significant at 1 percent level of significance.

In case of retained earnings per share, the sign of coefficient is as expected for finance sector and total sector but not for non-finance sector. The coefficients of retained earnings are 0.80, 33.35, and 2.74 with 0.56, 3.36, and 2.20 of t-values in finance, non- finance and total sectors respectively. Thus, retained earnings coefficient is not statistically significant in finance sector, and significant at 1 percent and 5 percent level of significance in non-finance and total sectors respectively. It implies that earnings have relatively weak influence on stock prices.

Similarly, in case of lagged earnings price ratio, the sign of coefficients are not as expected for non-finance and total sectors, but the coefficient is as expected for finance sector. The coefficients of lagged earnings price ratio are statistically insignificant in finance and total sectors at 5 percent level of significance. But it is significant at 1 percent level of significance for non-finance sector.

Making the inferences of the results of different regression models so far, it can be observed that the coefficients of dividends are positive as expected in both the individual sectors and the total sector. The value of coefficients have increased in total sector when added the other explanatory variables. The coefficients of determination have also increased in non-finance and total sectors. The coefficients of dividends are higher as compared to the coefficient of retained earnings and lagged earnings price ratio in non-finance and total sectors and the coefficient of dividend is higher than the coefficient of retained earnings only in the finance sector. The coefficient of lagged earnings price ratio is highest in finance sector. The coefficient of lagged earnings price ratio is highest in finance sector among all the sectors, and it indicates that lagged earnings price ratio has most significant influence in the stock prices of finance sector. However, the coefficient of dividend is significant at1…..percent level for non-finance sector only, and coefficients of retained earnings are significant for non-finance and total sectors at 1 percent and 5 percent level of significance respectively. The value of coefficients of dividends are higher for

non-finance sector than for finance sector. This gives the allusion of the positive relationship between dividends and stock prices and dividend payout affects share prices of finance and non-finance sectors differently.

The result of present study is in sharp contradiction with the result of earlier study (Timilsena, 1997) in the case of lagged earnings price ratio for finance sector. The coefficient of this ratio was -1402.73 in earlier study whereas the same is 578.156 in present study. Thus, it is obvious that the finance sector has started the shifting towards more weight for lagged earnings to explain the prices of the stocks. On the whole, this study suggests that the relationship between dividends and stock prices is in conformity with the relationship as assured in developed capital market.

CHAPTER-V

PRESENTATION AND ANALYSIS OF PRIMARY DATA

5.1. Introduction:

Studies on corporate dividend policy are important because information on how executives make dividend decisions would not only help development of realistic theoretical models but would also help to test empirically the different hypothesis concerning dividend policy. There is, therefore, a need for generation primary data on corporate dividend policy in Nepal.

This chapter based on primary data analysis mainly deals with qualitative aspects of corporate dividend policy. The qualitative aspects are examined by distributing questionnaires to 27 financial executives. Out of them, 15 respondents belong to companies in finance sector and 12 respondents belong to companies in non-finance sector. The classification of the respondents into finance and non-finance sectors has been made for analyzing the differences in their opinions with respect to major aspects of corporate dividend practices in Nepal. These aspects include assessing priority for major decisions of finance, motives for paying cash and stock dividend, factors affecting corporate dividend policy, suggestion and recommendation on dividend policy, views on observations on corporate dividend policy and views on legal provision with respect to dividend decision. The pro-forma of structured questionnaire and the details of responses obtained are presented in Exhibits 7, 8, and 9 respectively. Similarly, the list of responding organizations is given in Exhibit 13.

In order to assess whether the difference in the opinions of the finance and non-finance sector respondents as to major aspects of corporate dividend practices in Nepal is significant, chi-square values are computed and the results are presented in Exhibit 10. Similarly, the response to each choice in those questions where choices were given to be ranked is weighted by the value of the rank assigned to it by the respondents, and the weighted arithmetic mean was calculated to find the overall rank for each choice for finance, non-finance and all respondents. The Spearman's rank correlation coefficient was calculated to find the degree of relationship between the responding groups from the finance and non-finance sectors, which was tested for

significance too (Exhibit 11). The median value was calculated to find the level of agreement of respondents with respect to the observation on corporate dividend policy.

5.2. Profiles of Respondents:

The question of the questionnaire was devoted to obtaining profiles of respondents on companies surveyed which consists of four parts. The responses to this question are presented in Table 5.1 A - 5.1 D. As is evident from Table 5.1 A, the majority of persons responding to the survey (66 %) hold the position of Financial Manager but there are also a satisfactory number holding the position of General Manager (8 %), Director/Managing Director (7 %), Chairman (4 %), Manager (6 %), and others (9 %). The others include the persons holding the position of operation incharge, legal officer, personnel/human resource manager, and marketing manager. The respondents' serious interest in the survey is evident from the key positions held by respondents.

With respect to age of companies, 45 percent of companies covered by this study are of 5 to 10 years old, 14 percent are of 10 to 15 years old, 5 percent are less than 5 years old, and the rest are more than 15 years old (Table 5.1 B).

Table 5.1: Profiles of Respondents

Table 5.1 A: Respondents' position in the company

Position	Number	Percentage
Chairman	5	4
Director/Managing Director	10	7
General Manager	11	8
Financial Manager	89	66
Manager	8	6
Others	12	9
Total	135	100

Table 5.1 B: Age of Companies (Years)

Age	Number	Percentage
Less than 5	6	5
5-10	61	45
10-15	19	14
15-20	7	5
Over 20	42	31
Total	135	100

Table 5.1 C: Line of Business

Line of Business	Number	Percentage
Financial	95	70
Trading	10	8
Manufacturing	16	12
Services	14	10
Total	135	100

Table 5.1 D: Stock Holding and Trading

Stock Holding and Trading	Number	Percentage
Held by general public and traded in NEPSE Ltd.	116	86
Not held by general public and not traded in NEPSE Ltd.	19	14
Total	135	100

The majority (70 percent) of companies covered in this study are in financial. However, in non-finance companies, manufacturing covers 12 percent, services cover 10 percent and trading covers 8 percent.

The respondents were also asked if their company's stocks are held by the general public as well as if the stocks are traded in the Nepal Stock Exchange Ltd. of the total companies surveyed, 86 percent reported that their stocks are held by the general public and are traded in the Nepal Stock Exchange Ltd.

5.3. Major Aspects of Corporate Dividend Policy:

(a) Priority for Dividend Decisions:

In their overall ranks for the importance of major decisions of finance i.e., financing decisions, investment decisions and dividend decisions, the majority of respondents gave the first priority to 'investment decisions' the second priority to 'financing decision' and the third priority to 'dividend decisions'. In this aspect, when the responses of finance sector respondents are compared with those of non-finance sector respondents, the finance sector respondents did not assign first priority to any of given three decisions, but the non-finance sector respondents gave the first priority to 'financing decisions' and 'investment decisions'. Dividend decisions ranked in third in the responses of both groups (Exhibit 9).

To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 2.63 and the critical value at 5 percent level of significance is 5.991 (Exhibit 10). It can, therefore, be stated that the opinions of both responding groups are similar and that there is no significant difference with respect to importance of major decisions of finance.

(b) Major Motives for Paying Cash Dividends:

With respect to major motives for paying cash dividend, the majority of the respondents (34 percent) feel that it is 'to convey information to shareholders that the company is doing good'. Some respondents (32 percent) feel that it is 'to fulfill shareholders' expectation', while 15 percent of the respondents opine that the major motives is 'to draw attention from the investment community'. The other (19 percent) respondents consider that the major motives is 'to increase the market value of the firm's stock' (Exhibit 8). In this connection, when the responses of the finance sector respondents are compared with those of non-finance sector respondents, the majority in the finance sector stated that the major motive is 'to fulfill

shareholder' expectation', while the majority in the non-finance sector stated that the major motive is 'to convey information to shareholders that the company is doing good'. However, the difference in the opinions of responding groups is not significant at 5 percent level of significance as the computed value of chi-square is 1.84, which is less than the critical value of 7.91 (Exhibit 10).

(c) Dividend as a Residual Decision:

With respect to dividend as a residual decision, the majority of the respondents (88 percent) feel that it is not a residual decision. Only 6 percent of respondents feel that it is a residual decision. The other 6 percent respondents feel that they are indeterminate with respect to dividend as a residual decision. In this connection, when the responses of the responses of the finance sector respondents are compared with those of non-finance sector respondent, the majority of the respondents in the finance sector (94 percent) as well as in non-finance sector (75 percent) stated that it is not a residual decision. The difference in the opinions of responding groups is significant at 5 percent level of significance as the computed value of chi-square is 10.44, which is greater than the critical value of 5.99 (Exhibit 10). Thus, dividend is not a residual decision as viewed by the majority of respondents.

(d) Payment or Non-Payment of Dividends:

Nepalese shareholders are not really indifferent towards payment or non-payment of dividends. The 83 percent of the respondents felt that they are not indifferent. 16 percent stated that shareholders are indifferent in this aspect. Only one percent of the respondents stated that they have no any idea on it. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector respondents, eighty-seven percent of respondents in finance sector stated that Nepalese shareholders are not indifferent to whether the company pays or does not pay dividend. Similarly, seventy-three percent of the respondents in non-finance sector also gave the same opinion. To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 4.29 and the critical value at 5 percent level of significance is 5.99 (Exhibit 10). It can, therefore, be indicated that the opinions of both responding groups are

similar and that there is no significant difference with respect to whether the company pays or does not pay dividend.

(e) Announcement of Earnings:

With respect to whether the company's announcement of earnings will help to increase market price of a share, the majority of the respondents (96 percent) feel that the company's announcement of earnings will help to increase market price of a share. Three percent of the respondents feel that the company's announcement of earnings will not help to increase market price of a share. Only one percent of respondents feel that they do not know whether the company's announcement of earnings will help to increase market price of share. In this connection, when the responses of finance sector respondents are compared to the responses of non-finance sector, ninety-six…percent of respondents in finance sector stated that the company's announcement of earnings will help to increase market price of a share. While ninety-five percent of the respondents in non-finance sector gave the same opinion. To find out whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 1.63 and the critical value at 5 percent level of significance is 5.99 (Exhibit 10). It can, therefore, be indicated that the opinions of both responding groups are similar and that there is no significant difference with respect to whether company's announcement of earnings will help to increase market price of a share.

(f) Suggestion if the Company has no Cash to pay Dividends:

If the company has no cash to pay dividends, forty-eight percent of the respondents opined to pay stock dividends. Thirty-nine percent of the respondents suggested for not to pay cash or stock dividends at all. Another thirteen percent of the respondents suggested to borrow funds and pay cash dividends if the company has no cash to pay dividends. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector, forty-eight percent of the respondents from each sector suggested to pay stock dividends if such situation prevail in the company. And thirty-nine percent of the respondents from each sector suggested for not paying cash or stock dividends at all. To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is zero and the critical value at 5 percent level of

significance is 5.99 (Exhibit 10). It can, therefore, be indicated the opinions of both responding groups are similar and that there is no significant difference with respect to giving suggestions if the company has no cash to pay dividends. Some respondents gave other suggestions as well. These other suggestions were as follows:

- To investigate the reason,
- Receivables may be more (if there are profits),
- Try to avoid such situation,
- Decision is to be taken after considering the overall financial situation of the company,
- Dividend should be declared after examining cash position,
- Pay dividend as and when liquidity position is strengthened,
- Give reasons to shareholders and do not pay,
- No declaration of dividend,
- Depends upon scenario prevailing at that point of time,
- Not applicable to financial company.
- Build more reserve for strengthening the company,
- It depends upon the situation and policy,
- And generate enough cash and profits,
- Do not declare dividend unless capable,
- Better to withhold profit in general reserve,
- Postpone dividend,

In this connection, it is pointed out that financial executives feel some sort of obligation in providing returns to the shareholders.

(g) Suggestion of Stock Split:

One of the questions asked to respondents is whether the company should go for stock split if company's market price per share is very high. In this connection, fifty-three percent of the respondents suggested not to go for stock split. Forty-two percent of the respondents suggested to go for stock split. Another five percent of the respondents feel that they do not know about stock split. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector, sixty-two percent of the respondents from the

finance sector suggested not to go for stock split and thirty-four percent of the respondents suggested to go for stock split. As regards non-finance sector, sixty percent of the respondents suggested to go for stock split while thirty-three percent of the respondents from the non-finance sector suggested not to go for stock split. To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 9.61 and the critical value at 5 percent level of significance is 5.99 (Exhibit 10). It can, therefore, be indicated that the opinions of both responding groups are not similar and that there is significant difference with respect to suggestions to go for stock split. The informal interview with financial executives in this respect reveals that stock split is not necessary because it merely increases administrative cost of the company providing no benefits. Some of the executives are of the view that prevailing legal provisions are constraints for this aspect of corporate dividend policy. Thus stock split which is popular practice of developed capital market is virtually neglected in the capital market of Nepal.

(h) Legal Restriction on Share Repurchase:

With respect to legal restriction on share repurchase, fifty-seven percent of the respondents felt that this kind of legal restriction on share repurchase should continue to prevail, and thirty-nine percent of the respondents stated that such restriction on share repurchase should not continue to prevail (Exhibit 8). Similarly, four percent of the respondents opined that they do not know whether the legal restriction on share repurchase should continue to prevail. Thus, the majority of respondent is of opinion that the legal restriction on share repurchase should continue to prevail. In this connection, when the responses of the finance sector respondents are compared with those of the non-finance sector, the majority in the finance sector stated that the legal restriction on share repurchase should continue to prevail, while the same view of the respondents in non-finance sector found for both alternatives. However, the difference in the opinions of the responding groups is not significant at 5 percent level of significance as the computed value of chi-square is 2.34, which is less than the critical value of 5.99 (Exhibit 10). The personal interview with financial executives on this aspect revealed that this provision is in the interest of shareholders. It protects the public limited company otherwise promoters of public limited company may make it a private limited company. However, this provision is in fact against the theory of finance.

(i) Factors Affecting Corporate Dividend Policy in Nepal:

With respect to factors affecting corporate dividend policy, the majority of the respondents gave the first priority to 'earnings'; the second priority to 'availability of cash'; the third priority to 'past dividends'; and the fourth priority to 'concern about maintaining or increasing stock price';. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector respondents, both responding groups gave the first priority to 'earnings'; 'past dividends' got the second priority from the finance sector; but the non-finance sector group did not give second priority to any of the given factors; 'availability of cash' also got second priority from the finance sector; but 'availability of cash' got third priority from the non-finance sector; finance sector did not assign fourth priority to any of the given factors; but non-finance sector ranked fourth to 'concern about maintaining or increasing stock price' (Exhibit 9). To test whether the degree of relationship between the responding groups is significant, the rank correlation coefficient is calculated. The calculated rank correlation coefficient is 0.93 and the critical value at 5 percent level of significance is 0.74 (Exhibit). Since the critical (tabular) value is less than computed value, the degree of relationship between the responding group is significant.

To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square is 3.36 and the critical value at 5 percent level of significance is 12.59 (Exhibit 10). It can therefore, be stated that there is no significant difference with respect to factors affecting corporate dividend policy in Nepal.

The important point to be noted here is that the findings of this aspect of study is similar to the findings of the study made by H.K. Baker, G.E. Farrely, and R.B. Edelman, R. Bhat and I.M. Pandey. These findings are also consistent with the theory of finance.

(j) Motives of Stock Dividend Payment:

With respect to motives of stock dividend payment in Nepalese corporate sector, the majority of the respondents gave the first importance to 'conserve cash'; the second importance to 'indicate higher future profits'; the third importance to 'provide high psychological value to shareholders'; and the fourth importance to 'raise future dividends for shareholders'. In this

connection, when the responses of finance sector respondents are compared to the responses of non-finance sector respondents, both responding groups gave the first importance to 'conserve cash'; 'indicate higher future profits' got the second importance from the non-finance sector respondents; the finance sector respondents did not give second importance to any of the given motives; 'to indicate higher future profits' and 'to provide high psychological value to shareholders' were given third importance in the responses of finance sector. The non-finance sector respondents did not give third importance to any of the given motives. Both responding groups gave fourth importance to 'raise future dividends for shareholders'. To test whether the degree of relationship between the responding groups is significant, the rank correlation coefficient is computed, the computed rank correlation coefficient is 0.90 and the critical value at 5 percent level of significance is 0.90 (Exhibit 11). This means that the degree of relationship between the responding groups is not significant.

To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 0.33 and the critical value at 5 percent level of significance is 9.49 (Exhibit 10). It can therefore, be stated that there is no significant difference with respect to motives of stock dividend payment in Nepalese corporate sector.

The interesting point to be noted is that with respect to motives of stock dividend payment, the major motives of stock dividend payment is to 'raise capital base of the company as per legal requirement'. This finding in the Nepalese corporate sector is not consistent with the findings of the study made by H.K. Baker and A.L. Phillips in the developed capital market and with the theory of finance.

(k) Suggestion with Regard to Dividend Policy:

With regard to suggestion on dividend policy, thirty-seven percent of the respondents suggested 'stability of dividend and unhaphazard payout ratio'. Thirty-four percent of the respondents suggested 'cash balance for dividend be adequately planned and maintained'. Similarly, twenty-six percent of the respondents suggested 'treatment of dividend as an obligation'. Only three percent of the respondents suggested 'legislation regarding minimum dividend be enacted'. In this aspect, when the respondents of finance sector respondents are

compared to the responses of non-finance sector respondents, forty-two percent of the respondents from finance sector suggested 'stability of dividend and unhaphazard payout ratio'. Thirty percent of the respondents from finance sector suggested 'cash balance for dividend be adequately planned and maintained'. Similarly, twenty-five percent of the respondents from finance sector suggested 'treatment of dividend as an obligation'. For the same aspect, forty-four…..percent of the respondents from non-finance sector suggested 'cash balance for dividend be adequately planned and maintained'; twenty-seven percent of the respondents from non-finance sector suggested 'treatment of dividend as an obligation, and another twenty-seven percent of the respondents from non-finance sector suggested 'stability of dividend and unhaphazard payout ratio. To find the difference in the opinions of the finance and non-finance sectors respondents is significant, the chi-square test is employed. The computed chi-square value is 3.94 and the critical value at 5 percent level of significance is 7.81 (Exhibit 10). It can, therefore, be indicated that the opinions of both responding groups are similar and that there is no significant difference with respect to giving suggestion to dividend policy in Nepalese enterprises.

(l) Recommendation of Dividend Policy for Nepalese Enterprises:

With respect to recommendation on dividend policy, forty-eight percent of the respondents recommended 'steady dividends at a level higher than present level'; forty-six percent of the respondents recommended 'steady dividends at the present level'; and another six percent of the respondents recommended 'steady dividends at a level lower than present level'. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector respondents, fifty-two percent of the respondents from the finance sector recommended 'steady dividends at a level higher than present level'; forty-six percent of the respondents from the finance sector recommended 'steady dividends at the present level'. While forty-seven percent of the respondents from the non-finance sector recommended 'steady dividend at the present level', and thirty-nine percent of the respondents from the non-finance sector recommended 'steady dividends at a level higher than present level'. To test whether the difference in the opinions of the finance and non-finance sector respondents is significant, the chi-square test is employed. The computed chi-square value is 7.09 and critical value at 5 percent level of significance is 5.99 (Exhibit 10). It can, therefore, be indicated that the opinions of both

responding groups are not similar and that there is significant difference with respect to recommendation of suitable dividend policy for Nepalese enterprises.

(m) Observations on Corporate Dividend Policy:

At the end of the questionnaire, the respondents were provided with a list of ten different statements of observations on corporate dividend policy in Nepal and they were asked to rank them in order of their significance. The responses obtained on this list are shown in Exhibit 12.

In order to highlight the significance of the selected statements of observations, median and quartile values of responses for each statement of observation have been computed. The first criterion applied is the value of the median. The lower value of median indicates that the statement is highly significant to majority of respondents. Similarly, a high values of median shows that the statement is not significant. In those cases where median values were identical, quartile values were computed to find out the degree of significance of the statement of the observation. The observation statement which has a low quartile value indicates that it is more significant as compared to one with a high quartile value. The low quartile value indicates less variability in the responses. Applying these criteria, the observation statements have been arranged in order of their significance in table 5.2

Table 5.2

Observations on Corporate Dividend Policy as Viewed by all Respondents

Observation Statements	Median value
1. Dividend payout affects the price of the common stock.	0.99
2. Reason for dividend policy changes should be adequately disclosed to investors.	1.37
3. Dividend payments convey future prospects.	1.38
4. If a company provides information on favourable future prospect, it will increase market price of it's share.	1.4
5. A firms should avoid making changes in its dividend rates that might have to be reversed in a year or so.	1.75
6. Shareholders in high tax brackets prefer stock dividends.	1.80
7. Shareholders in high tax brackets are attracted to low dividends.	3.30 (2.28)
8. In Nepal, most of the companies do not want to pay dividends.	3.30 (2.34)
9. Company should not pay dividends if profitable investments are on hand.	3.18
10. Shareholders are indifferent whether company pays dividends or retains earnings.	3.5

Source: Exhibit 12

Note: Figures in parentheses indicate quartile values.

The median values of observation statements varied from 0.99 to 3.50 among them, 'dividend payout affects the price of the common stock' has been regarded as the most significant observation on corporate dividend policy in Nepal. The least significant observation for the majority of the respondents is 'shareholders are indifferent whether company pays dividends or retains earnings'. The corporate dividend practices in Nepal would be enhanced if the above findings are taken into account while making dividend decisions.

The ‘observation statements’ presented above have been arranged in order of their significance without making any distinction between the responses of the finance and non-finance sector groups. However, it is also necessary to assess the difference in the opinions of these two groups of respondents. These responses are presented in Table 5.3

Table 5.3

Observation on Corporate Dividend Policy as Viewed by Finance and Non-finance Sectors Respondents

Observation Statements	Median Value	
	Finance	Non-finance
1. Dividend payout affects the price of the common stock.	0.99	0.50
2. Reason for dividend policy changes should be adequately disclosed to investors.	1.32	1.48
3. Dividend payments convey future prospects.	1.35	1.44
4. If a company provides information on favourable future prospect, it will increase market price of it’s share.	1.42	1.34
5. A firms should avoid making changes in its dividend rates that might have to be reversed in a year or so.	1.68	1.96
6. Shareholders in high tax brackets prefer stock dividends.	1.79	1.81
7. Shareholders in high tax brackets are attracted to low dividends.	3.28	1.97
8. In Nepal, most of the companies do not want to pay dividends.	3.31	3.27
9. Company should not pay dividends if profitable investments are on hand.	3.35	3.15
10. Shareholders are indifferent whether company pays dividends or retains earnings.	3.55	3.35

Source: Exhibit 12

The ‘observation statements’ are arranged in Table 5.3 in order of their significance as viewed by the finance sector respondents. The median values of observation statements in Table 5.3 varied from 0.99 to 3.55 among them, the most significant observations on corporate

dividend practices in Nepal as viewed by finance sector respondents is that 'dividend payout affects the price of the common stock' followed by 'reasons for dividend policy changes should be adequately disclosed to investors' and so on. The least significant observation made by the majority of respondents from the finance sectors is 'shareholders are indifferent whether company pays dividend or retains earnings'.

In order to compare the responses of the finance sector with those of the non-finance sector, the observation statements as viewed by the non-finance sector respondents are also arranged in Table 5.3

The median values of observation statements in Table 5.3 varied from 0.50 to 3.35 the majority of respondents from the non-finance sector gave second importance to 'if a company provides information on favourable future prospect, it will increase market price of it's share, but this observation statement relatively undermined from the finance sector. In other observation statements, both responding groups felt the similar importance on corporate dividend policy in Nepal. Thus, it is obvious that the finance and non-finance sector respondents have similar views with respect to different observation statements on corporate dividend policy in Nepal.

With this analysis made in this chapter, it is hoped that it would provide a useful insight and guidelines to enhance corporate dividend policy in Nepal and develop capital market as a whole.

CHAPTER- VI

SUMMARY AND CONCLUSIONS

Dividends refer to that portion of a firm's net earnings which are paid out to the shareholders. Dividends serve as a simple, comprehensive signal of management's interpretation of the firm's recent performance and its future prospects. The improved corporate dividend practice is thus an essential means to solve the problem of asymmetric information between management of newly established Nepalese companies and Nepalese investors who have poured their funds therein.

There are the different factors that affects dividends such as earnings, liquidity position, degree of leverage, assets turnover and interest coverage. These factors indicate the financial position of a firm. If a firm has good performance in terms of these factors, it will be able to provide returns in the form of dividends to the shareholders.

The study mainly aims to assess corporate dividend practices in Nepal. Its specific objectives are: (1) to analyse the properties of portfolios formed on dividends; (2) to examine the relationship between dividends and stock prices; (3) to survey the opinions of financial executives on corporate dividend practices.

This is perhaps the first study of its kind in Nepal. This study covers almost all finance and non-finance companies of Nepal paying dividends. The study is based on secondary as well as primary sources of information. A study of portfolios formed on dividends was accomplished by using secondary data of 12 companies listed in Nepal Stock Exchange (NEPSE) Ltd. The relation between dividends and stock prices was also accomplished by using secondary data of 10 companies listed in NEPSE Ltd. while survey of financial executives was accomplished by using primary data from 8 companies of Nepal. Out of 8 companies, 5 companies were from finance sector and 3 companies were from non-finance sector. Twenty- seven respondents from 8 companies have their responses on the different aspects of corporate dividend practices in Nepal.

To analyses the properties of portfolios formed on dividends of high and low dividend paying companies, the data on dividends, liquidity, leverage, profitability, turnover, and interest coverage were collected. The simple securities were sorted out into 3 portfolios based on

dividend per share to book value per share, dividend per share to earnings per share, and dividend per share to market price per share. The relationship of dividends with various measures of liquidity, leverage profitability, turnover and interest coverage were then examined by using the model, $DIV= a_0+a_1LIQ+a_2LEV+a_3EARN+a_4TURN+a_5COV+U$ on pooled data of 50 observations.

The study of relationship between dividends and stock prices was accomplished by collecting the data on market price per share, dividends per share, retained earnings, and lagged earnings price ratio of 12 companies for the period of 2006 to 2010 out of 12 companies, 7 companies were from finance sector and remaining 5 companies were from non-finance sector. The analysis of data were made for finance, non-finance and total sectors by using the models; $P_t=a+b_1D_t+b_2R_t$ and $P_t=a+b_1D_t+b_2R_t +b_3(E/P)_{t-1}$. The analysis was based on pooled data of 77 observations.

In order to study the opinion of financial executives on corporate dividend practices, a questionnaire survey of 27 respondents was carried out. The results were analysed to ascertain the differences in the responses of finance and non-finance sector group of companies. For this purpose, a variety of statistical tests were employed and results were selected at 5 percent level of significance.

6.1. Major Findings:

The major findings of secondary data analysis are stated as follows:

1. Stocks with larger ratio of dividend per share to book value per share have higher liquidity. However, liquidity position of stocks paying higher dividends is also more variable as compared to stocks paying lower dividends.

2. Stocks with larger ratio of dividend per share to book value per share have lower leverage ratios. It shows that companies paying higher dividends are reluctant to employ higher degree of leverage in their capital structure. Leverage ratios of stocks paying smaller dividends are also more variable as compared to stocks paying higher dividends.

3. when the relationship between dividends and profitability is studied, it revealed that stocks with larger ratio of dividend per share to book value per share have higher profitability.

However, these profitability ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

4. Positive relationship is observed between the ratio of dividend per share to book value per share and turnover ratios. Stocks with larger ratio of dividend per share to book value per share also have higher turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable than of stock paying smaller dividends.

5. There is also a positive relationship between the ratio of dividend per share to book value per share and interest coverage. Stocks with higher ratio of dividend per share to book value per share also have higher interest coverage.

6. A positive relationship is found between dividend payouts and current ratio whereas the negative relationship is found between dividend payouts and quick ratio. It may be due to more reduction of quick assets rather than current assets when more dividends are paidout. The position of current ratio of stocks paying larger dividends is also more variable as compared to stocks paying lower dividends whereas the position of quick ratio of stocks paying larger dividends whereas the position of quick ratio of stocks paying larger dividends is less variable as compared to stocks paying lower dividends.

7. There is a negative relationship observed between dividend payouts and earnings before tax to net worth. On the other hand, there is a positive relationship between dividend payouts and earnings before tax to total assets. However, the return on both of total assets and net worth is more variable for stock paying higher dividends.

8. The relationship between dividend payouts and turnover ratios has been observed to be positive. Stocks with larger dividend payouts also have higher turnover ratios. However, turnover ratios of stocks paying larger dividends are also more variable.

9. Positive relationship is also observed between dividend payouts and interest coverage. Stocks with higher dividend payouts also have higher interest coverage. Interest coverage of stocks paying larger dividends are also more variable.

10. When studied the relationship between dividend per share to market price per share ratio and liquidity ratio, the study revealed that the stocks with larger ratio of dividend per share to market

price per share have higher liquidity. Liquidity position of stocks paying larger dividend are also more variable as compared to stocks paying lower dividends.

11. Stocks with larger ratio of dividend per share to market price per share have lower leverage ratios. Leverage ratios of stocks paying higher dividends are also more variable as compared to stocks paying lower dividends.

12. The study of the relationship between dividend per share to market price per share and profitability indicated that stocks with larger ratio of dividend per share to market price per share have higher earnings. However, the earnings ratios of stocks paying larger dividends are also more variable as compared to stocks paying smaller dividends.

13. When studied the relationship between dividend per share to market price per share and turnover, it is noticed that there is positive relationship between the ratio of dividend per share to market price per share and turnover ratios. Turnovers ratios of stocks paying larger dividends are found more variable as compared to stocks paying smaller dividends.

14. The study of the relationship between dividend per share to market price per share and interest coverage, the positive relationship was observed. Stocks with higher ratio of dividend per share to market per share also have higher interest coverage. However, interest coverage of stocks paying larger dividends are also more variable as compared to stock paying smaller dividends.

15. By comparing the findings of present study with the findings of a similar study conducted previously in the context of Nepal, the findings of present study are more or less similar to the findings of earlier study (Pradhan, 1993). The findings are contradictory only in the case of the relationship of dividend per share to earnings per share with the leverage and the relationship of dividend per share to earnings per share with return on net worth. Such a contradiction does not seem unusual as the situation of the country has changed over time.

16. The study of relationship between dividends and stock price revealed that there is positive relationship between dividends and stock prices in the sample companies. The coefficients of dividend are higher as compared to the coefficient of retained earnings and lagged earnings price ratio. However the coefficient of dividend is found significant at 1 percent level for non-finance

sector only. The value of coefficient of dividends is observed to be higher for non-finance sector than for finance sector. Thus dividend payout affects share prices for finance and non-finance sectors differently. The findings are consistent with the existence of a net preference by investors for current dividends as opposed to capital gains. On the whole, this study suggests that the relationship between dividends and stock prices is in conformity with the relationship as assured in developed capital market.

The major results of primary data analysis i.e., the survey on corporate dividend practices in Nepal are summarized as under:

1. The majority of respondents in the survey are financial managers. The majority of companies are of 20 to 25 years old and the majority of them come from finance sector. The majority of companies stocks are held by general public and traded in Nepal Stock Exchange Ltd.

2. Among the major decisions of finance, the majority of the respondents feel that investment decisions are more important. Financing decisions got second importance and dividend decisions got third and last importance. It indicates that dividend decisions are relatively less important.

3. With respect to major motives for paying cash dividend, the majority of the respondents feel that it is to convey information to shareholders that the company is doing good.

4. As regards dividend as a residual decision, the majority of the respondents feel that it is not a residual decision.

5. Nepalese shareholders are not really indifferent towards payment or non-payment of dividends.

6. With respect to whether the company's announcement of earnings will help to increase market price of a share, the majority of the respondents felt that the company's announcement of earnings will help to increase market price of a share.

7. If the company has no cash to pay dividends, the majority of the respondents opined to pay stock dividends. In this aspect, when the responses of finance sector respondents are compared with the responses of non-finance sector, the majority of respondents from each sector suggested

to pay stock dividends if such situations prevail in the company. Thus, it is pointed out that financial executives feel some sort of obligation in providing returns to the shareholders.

8. One of the question asked to respondents is whether the company should go for stock split if company's market price of share is very high. In this connection, the majority of the respondents suggested not to go for stock split. However, there is no unanimous view about it. The majority of finance sector respondents suggested not to go for stock split whereas the majority of non-finance sector respondents suggested to go for stock split. The informal interview with financial executives in this respect reveals that stock split is not necessary because it merely increases administrative cost of the company providing no benefits. Some of the executives are of the view that prevailing legal provisions are constraints for this aspect of corporate dividend policy. Thus stock split which is popular practice of developed capital market is virtually neglected in the capital market of Nepal.

9. With respect to legal restrictions on share repurchase, the majority of respondents felt that this kind of legal restriction on share repurchase should continue to prevail. The informal interview with financial executives on this aspect indicated that this provision is in the interest of shareholders. It protects the public limited company otherwise promoters of public limited company may make it a private limited company. However, this provision is in fact against the theory of finance.

10. With respect to factors affecting corporate dividend policy, the majority of the respondents gave the first priority to 'earnings'; the second priority to 'availability of cash'; the third priority to 'past dividends'; and the fourth priority to 'concern about maintaining or increasing stock price'. The important point to be noted here is that the findings of this aspect of the study is similar to the findings of the study made by H.K. Braker, F.E. Farrelly, R.B. Edelman, R. Bhat and I.M. Pandey. These findings are also consistent with the theory of finance.

11. With respect to motives of stock dividend payment in Nepalese corporate sector, the majority of the respondents gave first priority to 'conserve cash'; the second priority to 'indicate higher future profits'; the third priority to 'provide high psychological value to shareholders'; the fourth priority to 'raise future dividends for shareholders'; and the last priority to 'lower the firms's stock prices. However, with the help of informal interview with financial executives on this

aspect of corporate dividend policy, it is found that the major motive of stock dividend payment is to raise capital base of the company as per legal requirement. This finding in the Nepalese corporate sector is not consistent with the findings of the study made by H.K. Braker and A.L. Phillips in the developed capital market and with the theory of finance.

12. With regard to suggestion on dividend policy, the majority of respondents suggested 'stability of dividend and unhaphazard payout ratio'. In this connection, when the responses of finance sector respondents are compared with the responses of non-finance sector respondents, the majority of the respondents from finance sector suggested 'stability of dividend and unhaphazard payout ratio' whereas the majority of the respondents from non-finance sector suggested 'cash balance for dividend be adequately planned and maintained'.

13. With respect to recommendation on dividend policy, the majority of the respondents recommended 'steady dividend at a level higher than present level'. In this aspect, when the responses of finance sector respondents are compared to the responses of non-finance sector respondents, the majority of the respondents from the finance sector recommended 'steady dividends at a level higher than present level' whereas the majority of the respondents from the non-finance sector recommended for Nepalese companies to follow 'steady dividends at the present level'. These recommendations on dividend policy are consistent with the existence of a net preference by investors for current dividends as opposed to capital gains.

14. So far as the observations on corporate dividend policy as viewed by all the respondents are concerned, 'dividend payout affects the price of the common stock' has been regarded as the most significant observation in the list of the ten selected observation statements. The finance and non-finance sector respondents hold similar views with respect to different observation statements on corporate dividend policy in Nepal.

6.2. Conclusions:

The above mentioned major findings led this study to conclude that there are differences in financial position of high dividend paying and low dividend paying companies. Other things remaining the same, financial position of high dividend paying companies is comparatively better than that of low dividend paying companies. Another interesting conclusion that can be

drawn from this study is that market price of share is affected by dividends. Lastly, dividend as a residual decision in Nepalese companies is rejected by financial executives of Nepal.

6.3. Future Avenues:

There are several avenues for future research in the area of corporate dividend policy in Nepal. One extension of the present study is to examine the performance of key financial ratios of regular versus occasional dividend paying companies. A second avenue of research is to make study by adding additional years and the number of companies to get greater insight into the effect of dividend policy on value. A third research avenue is to find out other relevant variables which will explain the variation in stock price besides the variables presented in the models in this study. A few of such possible explanatory variables may be normalized lagged earnings price ratio and normalized retained earnings. A fourth avenue of research is to estimate a better model in explaining the corporate dividend behavior in Nepal from among the various models available in the literature. A final direction of research is to survey the opinions of shareholders on corporate dividend practices in Nepal.

Finally, it is recommended that in a world of market imperfections, the best policy is to view separately the net preference of investors for dividends or for capital gains and the fact that new equity financing is more costly than the retention of earnings.

Exhibit 1

Number of Observations of 8 Companies

1. NABIL Bank Limited	2006, 07, 08, 09, 10 = 5 years
2. Himalayan Bank Limited	2006, 07, 08, 09, 10 = 5 years
3. Nepal SBI Bank Limited	2006, 07, 08, 09, 10 = 5 years
4. Bank of Kathmandu	2006, 07, 08, 09, 10 = 5 years
5. Everest Bank limited	2006, 07, 08, 09, 10 = 5 years
6. Nepal Bank Limited	2009, 10 = 2 years
7. NIDC Capital Markets Limited	2008, 09, 10 = 3 years
8. Bishal Bazar Company Limited	2006, 07, 08, 09, 10 = 5 years
9. Salt Trading Company Limited	2006, 07, 08, 09, 10 = 5 years
10. Solti Hotel Limited	2006, 07, 08, 09, 10 = 5 years
11. Plastic Trading Company Limited	2006, 07, 08, 09, 10 = 5 years
12. Nepal Battery Company Limited	2006, 07, 08, 09, 10 = 5 years
Total observation	= 50

Exhibit 2
Statement of Average Stock Price, Dividend Per Share, Retained Earnings Per Share and Lagged Earnings Price Ratio of the Finance Companies

Companies	Years	MPS	DPS	R/E	E/P_{t-1}
V1	V2	V3	V4	V5	V6
NABIL	2006	1505	70	62.20	7.03
NABIL	2007	2240	85	92.13	5.77
NABIL	2008	5050	140	76.58	2.71
NABIL	2009	5272	85	53.58	2.15
NABIL	2010	4899	70	192	1.71
HBL	2006	920	11.58	20.27	5.21
HBL	2007	1100	30	22.74	5.39
HBL	2008	1740	15	9.56	3.49
HBL	2009	1980	25	80.10	3.17
HBL	2010	1780	12	70.24	3.48
SBI	2006	880	17.50	53.44	2.82
SBI	2007	1224	47.59	79.58	3.21
SBI	2008	900	-	48.60	3.15
SBI	2009	1350	42.11	133.90	2.68
SBI	2010	1385	17.50	180.10	1.71
BOK	2006	430	15	81.14	7
BOK	2007	850	18	62.81	5.14
BOK	2008	1375	20	122.51	3.16
BOK	2009	2350	40	47.32	2.55
BOK	2010	1750	47.37	52.52	3.12
EBL	2006	870	-	18.66	6.23
EBL	2007	1379	25	28.74	4.55
EBL	2008	2430	10	15.70	3.23
EBL	2009	3132	20	8.13	2.93
EBL	2010	2455	30	6.44	4.07

Number of cases = 25

Exhibit 3

Result of Multiple Regression Analysis of the Finance Companies Polled Data

Variable	Mean	Std Dev	Minimum	Maximum	N	Label
V3	570.55	369.28	25.25	1580	25	STOCK PRICE
V4	25.03	20.44	1.50	100	25	DPS
V5	51.65	75.14	1.69	501.85	25	REPS
V6	0.11	0.11	0.0063	0.6548	25	Lag EPR

Correlation and 1 tail signigicance

	V3	V4	V5	V6
V3	1.00	.200	.303	.343
	.999	.102	.026	.013
V4	.200	1.00	.155	.284
	.102	.999	.164	.034
V5	.303	.155	1.00	.741
	.026	.164	.999	.000
V6	.343	.284	.741	1.00
	.013	.034	.000	.999

Equation Number 1: STOCK PRICE (V3) on DPS (V4) and REPS (V5)

Multiple R	.8572	Square	.7604
Adjusted R Square	.0416	Standard Error	129.201

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	3	1131.4908	377.1636
Residual	10	185.7822	188.3822

F = 3.64355 Significance F = .0343

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V5	1.93862	.94508	.3394	3.84329	.332	2.051	.0426
V4	4.90008	3.28834	-2.45820	10.62465	.245	1.278	.2078
Const	320.72125	81.11929	156.46766	504.97485		3.972	.0004

Durbin-Watson Test = 1.5487

Equation Number 2: STOCK PRICE (V3) on DPS (V4), REPS (V5), lag EPR (V6)

Multiple R	.6382	Square	.1536
Adjusted R Square	.0763	Standard Error	363.04354

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	3	986.2538	350.5213
Residual	38	150.6695	195.03

F = 1.98649 Significance F = .1342

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V6	578.1527	637.1568	-815	.021693	.327	.343	737.3547
V4	3.1257	4.6221	-5.4248	11.855	.200	.735	.4595
V5	0.8012	1.4639	-2.1636	3.676	.303	.564	.5808
Const	286.6917	155.2421	232.2406	635.963		3.644	.0103

Durbin-Watson Test = 1.37460

Exhibit 4

Statement of Average Stock Price, Dividend Per Share, Retained Earnings Per Share and Lagged Earnings Price Ratio of the Non-finance Companies

Companies	Years	MPS	DPS	R/E	E/P_{t-1}
V1	V2	V3	V4	V5	V6
BBCL	2006	1300	15.28	2.73	8.31
BBCL	2007	1500	13.06	2.24	6.36
BBCL	2008	1606.75	7.58	55.29	3.44
BBCL	2009	1927.75	8.14	60.23	3.12
BBCL	2010	2195	8.29	61.69	2.77
STL	2006	450	20.39	503.26	26.06
STL	2007	450	17.84	567.97	40.41
STL	2008	1150	28.45	109.61	5.08
STL	2009	1312.50	5.81	119.07	3.68
STL	2010	868.75	10.65	127.31	6.68
SHL	2006	370	6	20.76	8.11
SHL	2007	1035.25	5.95	32.41	6.50
SHL	2008	1034.50	6.05	76.31	3.26
SHL	2009	1101.75	7	18.81	3.22
SHL	2010	710	6.50	26.43	7.02

Number of cases = 15

Exhibit 5

Result of Multiple Regression Analysis of the Non-finance Companies Polled Data

Variable	Mean	Std Dev	Minimum	Maximum	N	Label
V3	445.69	551.69	38	1795	15	STOCK PRICE
V4	14.37	12.44	2.58	60	15	DPS
V5	9.44	12.80	-2.70	56.64	15	REPS
V6	0.14	0.19	-0.09	0.76	15	Lag EPR

Correlation and 1 tail signigicance

	V3	V4	V5	V6
V3	1.00	.184	-.318	-.427
	.999	.174	.049	.012
V4	.184	1.00	.397	.314
	.174	.999	.018	.052
V5	-.318	.397	1.00	.082
	.049	.018	.999	.340
V6	-.427	.314	.082	1.00
	.12	.052	.340	.999

Equation Number 3: STOCK PRICE (V3) on DPS (V4) and REPS (V5)

Multiple R	.3443	Square	.1868
Adjusted R Square	.2185	Standard Error	501.7363

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	3	1140.2130	350.2212
Residual	8	180.1653	190.3132

F = 3.13786 Significance F = .0559

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V5	-20.3717	8.9318	-42.81	-1.93	- .278	-2.292	.0433
V4	18.12731	9.25148	-1.76	40.12	.189	1.887	.0173
Const	384.3349	144.5549	50.56	879.21		2.631	.0257

Durbin-Watson Test = 0.95465

Equation Number 4: STOCK PRICE (V3) on DPS (V4), REPS (V5), lag EPR (V6)

Multiple R	.6705	Square	.4929
Adjusted R Square	.4366	Standard Error	371.3014

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	3	780.24	260.308
Residual	7	783.21	326.30

F = 7.97034 Significance F = .0712

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V6	-228.763	419.6654	-156.70	-804.85	-.427	-3.568	.0012
V5	24.5821	7.13291	-47.34	-7.73	-.318	-3.310	.0046
V4	33.9527	8.0945	12.13	54.79	.184	3.363	.0026
Const	556.0459	109.5705	233.51	988.58		3.806	.0014

Durbin-Watson Test = 1.4641

Exhibit 6

Result of Multiple Regression Analysis of the Total Companies Polled Data

Variable	Mean	Std Dev	Minimum	Maximum	N	Label
V3	522.25	443.71	39	2495	40	STOCK PRICE
V4	20.19	15.71	1.50	100	40	DPS
V5	33.34	51.25	-2.07	398.85	40	REPS
V6	0.12	0.14	-0.088	0.6700	40	Lag EPR

Correlation and 1 tail signigicance

	V3	V4	V5	V6
V3	1.00	.197	.199	-.063
	.999	.051	.050	.303
V4	.197	1.00	.231	.266
	.051	.999	.027	.013
V5	.199	.231	1.00	.479
	.050	.027	.999	.000
V6	-.063	.266	.479	1.00
	.303	.13	.000	.999

Equation Number 5: STOCK PRICE (V3) on DPS (V4) and REPS (V5)

Multiple R	.56	Square	.4612
Adjusted R Square	.0557	Standard Error	429.3214

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	2	1566.8644	755.9323
Residual	24	1230.7421	1460.8748

F = 3.2406 Significance F = .0844

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V5	1.8529	1.0358	-.48	3.65	.232	1.258	.1370
V4	4.2857	2.9918	-1.76	12.24	.272	1.755	.1916
Const	303.6134	86.4926	174.50	538.73		3.349	.0000

Durbin-Watson Test = 0.99043

Equation Number 6: STOCK PRICE (V3) on DPS (V4), REPS (V5), lag EPR (V6)

Multiple R	.3829	Square	.2101
Adjusted R Square	.6707	Standard Error	434.7175

Analysis of Variance

	DF	Sum of Square	Mean Square
Regression	3	1473.1099	570.308
Residual	27	1034.9120	680.301

F = 2.93666 Significance F = .0457

Variable	B	SE B	95% Conf	Intrvl B	Correl	T	Sig T
V6	-796.7150	347.9526	-1090.99	87.05	-.036	-1.819	.0473
V4	6.2997	4.2203	-1.50	13.36	.179	1.462	.0153
V5	2.7363	1.7146	0.331	4.27	.199	2.203	.0471
Const	418.9931	82.0510	255.34	628.56		4.687	.0000

Durbin-Watson Test = 1.1601

Exhibit 7

Pro forma of Structured Questionnaire

A Survey of Corporate Dividend Practices in Nepal

Name (Optional): …….

Position: ……..

Experience: ……. Years Institution: ……..

Address: ……

Year of Establishment: …….

Business: …….. Sales: ……..

1. Are your company's stock held by the general public ?

   a) Yes: …….. b) No: …….

   If your company is not listed in Nepal Stock Exchange ?

   ……

2. which of the following decisions, do you think, are more important ?

   Please rank in order of their importance.

	Importance Very 1…..2……3 Little
a. Financing decisions	( )
b. Investment decision	( )
c. Dividend decisions	( )

3. Do you think is the major motive for paying cash dividend ? (Please make a tick-mark)

   a. To convey information to shareholders that the company is doing good. ( )

   b. To draw attention from the investment community. ( )

c. To increase the market value of the firm's stock. ( )

d. To fulfill shareholders expectation. ( )

e. Others (Please specify) ( )

4. Do you think that dividend as a residual decision in Nepalese enterprises ? (Residual decision means that the company will pay dividend only if there are no investment opportunities in the Company)

a) Yes…….. b) No……. c) Don't know……

5. Nepalese shareholders are indifferent whether the company pays or does not pay dividend. Do you agree? (Please make a tick-mark)

a) Yes…….. b) No……. c) Don't know……

6. Do you think that company's announcement of earnings will help to increase market price of a share ? (Please make a tick-mark)

a) Yes…… b) No……. c) Don't know……....

7. What do you suggest if the company has no cash to pay dividends ? (Please make a tick-mark)

a. Borrow funds and pay cash dividends. ( )

b. Pays stock dividends. ( )

c. Do not pay cash or stock dividends at all. ( )

d. Others (Please specify) ( )

8. In Nepal, market price of stock of some companies is higher and is out of reach of ordinary or poor investors. Do you suggest these companies to go for stock split so that their shares can be placed within a more popular trading range ? (Please make a tick-mark)

a) Yes…… b) No…….. c) Don't know……

9. In Nepal, companies are not allowed to purchase their own shares. Do you think that this kind of legal restriction on share repurchase should continue to prevail ? (Please make a tick-mark)

a)…….. b) No……. c) Don't know……

10. Please consider the following factors affecting corporate dividend policy in Nepal, and rank in order of their importance.

	Importance
	Very Little
	1….2….3….4….5….6….7
a. Earnings.	( )
b. Past dividends.	( )
c. Availability of cash.	( )
d. Concern about maintaining or increasing stock price.	( )
e. Ability to borrow of the company	( )
f. Investment opportunities in the company.	( )
g. Restrictions in bond indenture or loan agreement.	( )

11. How do you rank the following motives of stock dividend (bonus share) payment in Nepalese Corporate sector ?

	Importance
	Very Little
	1…..2…..3…..4…..5…..6

a. To conserve cash. ( )

b. To indicate higher future profits. ( )

c.To raise future dividends for shareholders. ( )

d. To provide high psychological value to shareholders. ( )

e. To lower the firm's stock price. ( )

f. Others (Please specify) ( )

12. What would you like to suggest with regard to dividend policy in Nepalese enterprises ?

(Please make a tick-mark)

a. Treatment of dividend as an obligation. ( )

b. Stability of dividend and unhaphazard payout ratio. ( )

c. Cash balance for dividend be adequately planned and maintained. ( )

d. Legislation regarding minimum dividend be enacted. ( )

e. Others (Please specify) ( )

13. Which of the following dividend policies do you recommend for Nepalese enterprises ?

(Please make a tick-mark)

a. Steady dividends at the present level. ( )

b. Steady dividend at a level lower than present level. ( )

c. Steady dividends at a level higher than present level. ( )

Pro forma of Structured Questionnaire (contd.)

14. How far do you agree/disagree with the following observations on corporate dividend policy in Nepal ? (Please make a tick-mark at the appropriate number as per following scheme):

1= strongly agree, 2= agree, 3= don't know, 4= disagree, 5= strongly disagree

S. No.	Statement	1	2	3	4	5
1	Dividend payout affects the price of common stock.					
2	Dividend payments convey future prospects.					
3	Shareholders in high tax brackets are attracted to low dividends.					
4	A firm should avoid making changes in its dividends rates that might have to be reversed in a year or so.					
5	Reason for dividend policy changes should be adequately disclosed to investors.					
6	Shareholders in high tax brackets prefer stock dividends.					
7	If a company provides information on favourable future prospects, it will increase market price of it's share.					
8	Shareholders are indifferent whether company pays dividends or retains earnings.					
9	Company should not pay dividends if profitable investments are on hand.					
10	In Nepal, most of the companies do not want to pay dividends.					

Exhibit 8

Number of Responses to Field Survey based on Questionnaire

S.No.	Stems	Finance Sector	Non-finance Sector	Total
1.	a.	80	33	113
		(85)	(87)	(86)
	b.	14	5	19
		(15)	(13)	(14)
	Total	94	38	132
		(100)	(100)	(100)
3.	a.	38	22	60
		(32)	(37)	(34)
	b.	16	11	27
		(14)	(18)	(15)
	c.	23	11	34
		(19)	(18)	(19)
	d.	42	16	58
		(35)	(27)	(32)
	Total	119	60	179
		(100)	(100)	(100)
4.	a.	2	6	8
		(2)	(15)	(6)
	b.	88	30	118
		(94)	(75)	(88)
	c.	4	4	8
		(4)	(10)	(6)
	Total	94	40	134
		(100)	(100)	(100)
5.	a.	11	10	21
		(12)	(25)	(16)
	b.	82	29	111
		(87)	(72.5)	(83)
	c.	1	1	2
		(1)	(2.5)	(1)
	Total	94	40	134
		(100)	(100)	(100)
6	a.	90	38	128
		(96)	(95)	(96)
	b.	2	2	4
		(2)	(5)	(3)
	c.	2	0	2
		(2)	(0)	(1)
	Total	94	40	134
		(100)	(100)	(100)
7	a.	10	4	14
		(13)	(13)	(13)
	b.	37	15	52
		(48)	(48)	(48)
	c.	30	12	42
		(39)	(39)	(39)

	Total	77 (100)	31 (100)	108 (100)
8	a.	32 (34)	24 (60)	56 (42)
	b.	58 (62)	13 (32.5)	71 (53)
	c.	4 (4)	3 (7.5)	7 (5)
	Total	94 (100)	40 (100)	134 (100)
9	a.	58 (62)	19 (47.5)	77 (57)
	b.	33 (35)	19 (47.5)	53 (39)
	c.	3 (3)	2 (5)	5 (4)
	Total	94 (100)	40 (100)	134 (100)
12	a.	25 (25)	12 (27)	37 (26)
	b.	42 (42)	12 (27)	54 (37)
	c.	30 (30)	20 (44)	50 (34)
	d.	3 (3)	1 (2)	4 (3)
	Total	100 (100)	45 (100)	145 (100)
13	a.	41 (46)	17 (47)	58 (46)
	b.	2 (2)	5 (14)	7 (6)
	c.	46 (52)	14 (39)	60 (48)
	Total	89 (100)	36 (100)	125 (100)

Source: Based on information contained in questionnaire.

Note: 1. S.No. indicates question number referred to in the questionnaire and indicate the choices specified in each question.

2. Figures in parentheses indicate percentage over total responses.

Exhibit 9

Rankwise Number of Responses to Field Survey based on Questionnaire

S.N.	Stem	Sector	Rankwise No. of Responses							Total Responses	Weighted value	Mean Weight	Overall Rank
			1	2	3	4	5	6	7				
2.	a.	Finance Sector	49	40	6					95	147	1.55	2
		Non-finance Sector	23	15	0					38	53	1.39	1
		Total	72	55	6					133	200	1.50	2
	b.	Finance Sector	56	36	3					95	137	1.44	2
		Non-finance Sector	25	11	3					39	56	1.43	1
		Total	81	47	6					134	193	1.44	1
	c.	Finance Sector	11	17	67					95	246	2.59	3
		Non-finance Sector	1	11	26					38	111	2.66	3
		Total	12	28	93					133	357	2.68	3
10.	a.	Finance Sector	78	10	3	2	0	0	1	94	122	1.30	1
		Non-finance Sector	33	4	-	-	-	1	-	38	47	1.24	1
		Total	111	14	3	2	0	1	1	132	169	1.28	1
	b.	Finance Sector	4	26	31	16	8	4	3	92	298	3.23	2
		Non-finance Sector	3	11	7	5	5	3	1	35	116	3.31	3
		Total	7	37	38	21	13	7	4	127	414	3.26	3
	c.	Finance Sector	6	37	19	13	7	4	6	92	290	3.15	2
		Non-finance Sector	2	12	7	5	4	4	2	36	125	3.47	3
		Total	8	49	26	18	11	8	8	128	415	3.24	2
	d.	Finance Sector	3	9	20	25	16	14	3	90	366	4.07	5
		Non-finance Sector	1	6	10	12	2	2	2	35	127	3.63	4
		Total	4	15	30	37	18	16	5	125	493	3.94	4
	e.	Finance Sector	0	5	9	11	17	27	21	90	475	5.28	6
		Non-finance Sector	1	3	5	3	8	12	3	35	167	4.77	6
		Total	1	8	14	14	25	39	24	125	642	5.14	6
	f.	Finance Sector	4	17	13	13	18	19	6	90	375	4.17	5
		Non-finance Sector	4	12	5	1	7	6	2	37	132	3.57	4
		Total	8	29	18	14	25	25	8	127	507	3.99	5
	g.	Finance Sector	2	0	3	11	14	15	45	90	530	5.89	7
		Non-finance Sector	1	0	4	2	4	4	18	33	191	5.79	7
		Total	3	0	7	13	18	19	63	123	721	5.86	7
11.	a.	Finance Sector	40	19	14	12	5			90	193	2.14	1
		Non-finance Sector	17	7	7	3	2			36	74	2.05	1
		Total	57	26	21	15	7			126	267	2.12	1

	b.	Finance Sector	20	14	25	23	5			87	240	2.76	3
		Non-finance Sector	4	13	11	5	2			35	93	2.66	2
		Total	24	27	36	28	7			122	333	2.73	2
	c.	Finance Sector	3	28	27	13	16			87	272	3.13	4
		Non-finance Sector	2	14	10	6	4			36	104	2.89	4
		Total	5	42	37	19	20			123	376	3.06	4
	d.	Finance Sector	19	20	15	26	7			87	243	2.79	3
		Non-finance Sector	10	8	7	8	4			37	99	2.67	2
		Total	29	28	22	34	11			124	350	2.82	3
	e.	Finance Sector	4	4	8	6	62			84	370	4.40	5
		Non-finance Sector	2	3	6	3	20			34	132	4.06	5
		Total	6	7	14	9	82			118	508	4.30	5

Source: Based on information contained in questionnaire.

Note: S. No. indicates question number referred to in the questionnaire and stems indicate the choices specified in each question.

Exhibit 10
Result of Chi-square Test

Q1	Fin	Non-fin	Total	Chi-square	5% level	1% level	Remarks
a	80	33	113	0.01			
b	14	5	19	0.06			
	94	38	132	0.07	3.84		NS
Q3							
a	38	22	60	0.27			
b	16	11	27	0.63			
c	23	11	34	0.02			
d	42	16	58	0.92			
	119	60	179	1.84	7.81		NS
Q4							
a	2	6	8	7.79			
b	88	30	118	1.10			
c	4	4	8	1.55			
	94	40	134	10.44	5.99	9.21	HS
Q5							
a	11	10	21	3.17			
b	82	29	111	0.74			
c	1	1	2	0.39			
	94	40	134	4.29	5.99		NS
Q6							
a	90	38	128	0.00			
b	2	2	4	0.78			
c	2	0	2	0.85			
	94	40	134	1.63	5.99		NS
Q7							
a	10	4	14	0.00			
b	37	15	52	0.00			
c	30	12	42	0.00			
	77	31	108	0.00	5.99		NS
Q8							
a	32	24	56	4.52			
b	58	13	71	4.52			
c	4	3	7	0.57			
	94	40	134	9.61	5.99	9.21	HS
Q9							
a	58	19	77	0.98			
b	33	19	52	1.11			
c	3	2	5	0.25			
	94	40	134	2.34	5.99		NS
Q12							
a	25	12	37	0.71			
b	42	12	54	0.47			
c	30	20	50	4.83			
d	3	1	4	0.00			
	70	25	95	1.18			
Q13							
a	41	17	58	0.01			
b	2	5	7	6.20			
c	46	14	60	0.87			
	89	36	125	7.09	5.99	9.21	HS

Q2

Fin	NFin	Total	Chisq	5% level	Remarks
147	53	200	0.77		
137	56	193	0.01		
246	111	357	0.53		
530	220	750	1.32		
1060	440	1500	2.63	5.991	NS

Q3

Fin	NFin	Total	Chi-sq		
122	47	169	0.07		
298	116	414	0.25		
290	125	415	2.15		
366	127	493	0.34		
457	167	642	0.27		
375	132	507	0.20		
530	191	721	0.07		
2456	905	3361	3.36	12.59	NS

Q4

Fin	NFin	Total	Chi-sq		
193	74	267	0		
240	93	333	0		
272	104	376	0		
243	99	342	0.22		
370	138	508	0.11		
1318	508	1826	0.33	9.488	NS

Source: Exhibit 8 and 9.

Note: The difference is significant if computed value of chi-square is greater than the critical value.

Exhibit 11

Result of Spearman's Rank Correlation Coefficient

Q. No.	Aspects:	Computed Value
2.	Priority for the decisions of managerial finance	0.50
10.	Factor affecting corporate dividend policy	0.93
11.	Major motives for stock dividend payments	0.90

Note:

2. i) Since the degree of freedom is 3 for rank correlation coefficient, critical value at 0.05 level of significant is not given.

10. i) Since the degree of freedom is 7 for rank correlation coefficients, critical value at 0.05 level of significant is 0.7450.

    ii) The degree of relationship is significant if tabular value is less than computed value.

11. i) Since the degree of freedom is 5 for rank correlation coefficient, critical value at 0.05 level of significant is 0.9000.

    ii) The degree of relationship is significant if critical value is less than computed value.

    iii) For calculation, see Richard I. Levin and David S. Rubin, Statistics

    For Management, Sixth Edition, Prentice-Hall Inc.,pp. 734-740.

Exhibit 12

Responses of Finance, Non-finance and Total Sectors with Respect to Significance of Observation on Corporate Dividend Policy.

S.No.	Observation	1	2	3	4	5	Total
1.	Dividend Payout affects the price of the common stock	47	37	4	4	1	93
		(20)	(20)	(0)	(0)	(0)	(40)
	Total	67	57	4	4	1	133
2.	Dividend payments convey future prospects.	27	56	6	4	-	93
		(7)	(29)	(2)	(1)	-	(39)
	Total	34	85	8	5	-	132
3.	Shareholders in high tax brackets are attracted to low dividends.	6	14	15	32	23	90
		(1)	(4)	(10)	(15)	(8)	(38)
	Total	7	18	25	47	31	128
4.	A firm should avoid making changes in its dividend rates that might have t6o be reversed in a year or so.	20	37	9	20	4	90
		(7)	(13)	(5)	(12)	(2)	(39)
	Total	27	50	14	32	6	129
5.	Reasons for dividend policy changes should be adequately disclosed to investors.	29	57	2	6	1	95
		(7)	(24)	(2)	(3)	(1)	(37)
	Total	36	81	4	9	2	132
6.	Shareholders in high tax brackets prefer stock dividends.	25	24	18	15	6	88
		(5)	(16)	(10)	(5)	(0)	(36)
	Total	30	40	28	20	6	124
7.	If a company provides information on favourable future prospect, it will increase market price of it's share.	22	59	4	9	0	94
		(12)	(22)	(0)	(5)	(0)	(39)
	Total	34	81	4	14	0	133
8.	Shareholders are indifferent whether company pays or retains earnings.	0	7	7	59	20	93
		(0)	(7)	(5)	(20)	(6)	(38)
	Total	0	14	12	79	26	131
9.	Company should not pay dividends if profitable investments are on hand.	5	26	2	50	11	94
		(4)	(16)	(2)	(14)	(3)	(39)
	Total	9	42	4	64	14	133
10.	In Nepal, most of the companies do not want to pay dividends.	6	11	13	49	15	94
		(3)	(6)	(8)	(17)	(5)	(39)
	Total	9	17	21	66	20	133

Source: Based on information contained in questionnaire.

Note: (i) Figures in Parentheses indicate responses of non-finance sector.

(ii) S.No. indicates sub-questions of number 14 as shown in questionnaire.

(iii) The scale values of 1,2,3,4 and 5 indicate : strongly agree, agree, don't know, disagree, and strongly disagree respectively.

Exhibit 13

List of Responding Organizations:

A. Finance Sector

S.No.	Name of the institutes:	Address of head office:	No. of responses retrieved:
1.	Nepal Arab Bank Limited	Kamaladi	3
2.	Himalayan Bank Limited	Thamel	4
3.	Nepal S.B.I. Bank Limited	Hatisar	1
4.	Bank of Kathmandu Limited	Kamaladi	2
5.	Everest Bank Limited	Naya Baneswor	5
Total Responses			15

B. Non-finance Sector:

S. No.	Name of the institutes:	Address of head office:	No. of responses retrieved:
1.	Bishal Bazar Company Limited	Sukrapath	4
2.	Salt Trading Limited	Kalimati	3
3.	Soaltee Hotel Limited	Tahachal	5
Total Responses			12

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